

EIR

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U.S. RTC model would collapse Japan's economy
Block the British plan to dismember Indonesia
Tables are turned: Starr faces contempt charges

**Human rights violations in
the U.S.A. must be stopped**



The issue of individual human freedom, is not the issue of "democracy." The essence of freedom, is the right to define oneself as a world-historical individual—to be a resident of the simultaneity of eternity—rather than some self-debased libertarian fool.

—LYNDON H. LAROCHE, JR.
May 28, 1998

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From the Associate Editor

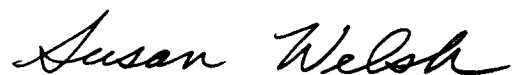
Dramatic events during July, including the ouster of Prime Minister Hashimoto in Japan and the last-minute bailout attempt in Russia, are harbingers of a “hot” summer and autumn to come. Either world policymakers will face up to reality, and reorganize the bankrupt financial and monetary system as Lyndon LaRouche has demanded, or they will be swept away.

“These are revolting times,” LaRouche commented. Those who cling to “crisis management” tactics may find themselves the “Kerenskys of the 1990s.”

In the United States, as our *Feature* this week documents, there has been a highly effective mobilization by the LaRouche movement, to force through legislation against the Department of Justice’s gestapo apparatus. The fact that more than 200 Congressmen signed on as co-sponsors of the Citizens Protection Act (McDade-Murtha bill), under pressure from their constituents, reflects this upheaval. In like manner, the continuing strike at General Motors constitutes a rejection of the “globalization” system, and the Clinton administration’s apology for it. The record figures of the U.S. trade deficit show that the facade of “prosperity” in the U.S. economy is crumbling. Yet, President Clinton is still clinging to virtual reality.

Now, the LaRouche movement is escalating its fight against human rights violations. It will hold town meetings against the injustice perpetrated by the DOJ bureaucracy, as well as against the North American Free Trade Agreement (NAFTA), prison privatization and slave labor, and “workfare” labor recycling. This issue of *EIR* is the first salvo in this new flanking maneuver.

Elsewhere in this issue, we have excellent reports from correspondents and friends around the world, including a guest commentary from the Philippines on the new government there; an historical analysis of Britain’s effort to dismember Indonesia, and what U.S. policy there should be; and a detailed refutation of the argument that what Japan and other Asian countries need to restore their bankrupt banking systems, is some version of the U.S. Resolution Trust Corp. In fact, the RTC was a disaster, one of the mechanisms that opened the way for the speculative bubble we have today.



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Correction: In last week's coverage of Kosova (pp. 39-43) we misidentified Feride Istogu Gillesberg: She was the assistant to Riza Mikqi, the representative of Kosova President Ibrahim Rugova to the OSCE Parliamentary Assembly in Copenhagen. In her intervention at the conference, she denied the charge that the Kosova Albanians are trying to create a "Greater Albania." "This is not true!" she said. "This is not the policy of President Rugova. His policy is to stop Milosevic's genocide. NATO has to intervene immediately. We have to prevent a new Bosnia now. That is what is at stake, and this is what we must talk about."

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Clinton sounds the alarm on U.S. agriculture crisis

by Marcia Merry Baker

On July 23, President Bill Clinton, flanked by Agriculture Secretary Dan Glickman, Congressmen from North Dakota, South Dakota, and Texas, and others, gave a “teleconference” to more than 200 radio and television stations, calling attention to the national farm crisis, and announcing urgent aid measures. The fanfare was appropriate. What’s hitting the U.S. farmbelt is no mere downside of a “good times/bad times” cycle, but the end-phase of breakdown. Unless the right emergency measures are taken—including ending U.S. support for the International Monetary Fund—there will be massive food shortages in the near future.

The President’s initiatives follow alarms sounded in the Senate during the week of July 13-16, at the time of passage of the Agriculture Appropriations bill for fiscal 1999. On July 14, a sense-of-the-Senate resolution was passed as an amendment, by a vote of 99-0, recognizing the urgency of the nation’s agriculture crisis, and calling on Congress and the President to take emergency action. The resolution was sponsored by Sen. Tom Harkin (D-Iowa) and Senate Minority Leader Tom Daschle (D-S.D.), who joined Clinton at the July 23 teleconference.

Farmers are now facing ruin, from the combination of low commodity prices, collapse of exports, and vulnerability to the nearly total control of markets by commodities cartel companies. Nationwide, net farm income is headed down below \$45.5 billion, which is a 25% drop this year from \$60 billion in 1996. State by state, depending on the commodity, farm income is in steep decline. In hundreds of farming counties, especially in Wisconsin, Minnesota, and the Dakotas, a real economic emergency exists. Weather and pest disasters are compounding the problems caused by foolish economic policies.

State and local crisis meetings occur almost daily. On July 15, a coalition of Oklahoma farm organizations flew to Washington, D.C. to meet with their eight Congressmen, demanding, according to Oklahoma Farms Union head Phillip Klutts, “short-term and long-term solutions.” “Low prices and drought have made the situation very severe,” he said.

No ‘safety net’ for farmers

President Clinton outlined a number of actions, including backing a \$500 million aid package for farmers, already introduced in the Senate; intervening to lift the low price paid to farmers for wheat by 5% per bushel, through government purchase of some 2.5 million tons of wheat and flour in the coming months, for donation to nations in need (Indonesia, North Korea, Sudan, and others). The President also announced expedited aid for regions hit hard by the weather disasters of the past year. Clinton assigned Secretary Glickman to go to Texas and Oklahoma to assess the situation first-hand.

Clinton himself, with members of Congress joining in, described the scope of the crisis. “Let me tell you how big a deal this is,” he said. “About 40-50% of all American grain production is exported. Forty percent of all the exports go to Asia. We have a 30% decline in farm exports to Asian countries, excluding China and Japan. They’re down about 13% in Japan; they’re down about 6% in China, 30% in the other countries this year, because of the Asian financial crisis.”

Senator Daschle, speaking next, said:

“Today, we had another illustration of the seriousness of the situation, with a report of income for farmers and ranchers



An abandoned farmstead during the dust bowls of 1937. So today, drought and other severe weather patterns are compounding the effects of lunatic free-trade policies, to drive American farmers into bankruptcy.

been shrinking rapidly. He added that increasing export credits won't help the producers, because "that would put more money in the pockets of the grain traders and importing companies and not the farmers we all represent." He continued, "If you want to help the farmers, then what we have to do is, we have to put in some supports and put that safety net back in there."

Average net farm income in North Dakota dropped 98% in 1997, compared with the previous year. Declines in other states from 1996 to 1997 were: Wisconsin, -38%; Minnesota, -38%; Washington, -20%; South Dakota, -17%; Idaho, -17%.

The Daschle/Harkin initiative to re-open the 1996 farm bill, flying in the face of years of "free-market" propaganda and delusions, was defeated on July 14, but the direction of their thinking—that "markets" cannot determine policy—is critical for

declining now 35% in the first quarter. That is indicative of what we see every time we go to our rural states. Income is declining."

Earlier in July, Daschle reported on this in detail to the Senate, in motivating a new bill to re-open the 1996 Freedom to Farm Law—the radical "free-market"-based legislation which is denounced by farmers as the "freedom to fail" act. Daschle proposed some safety-net measures for farmers, as national food security protection. At the time he signed the bill in April 1996, Clinton said that he did so "with reservations," that no safety net existed, and that future action might be needed.

"In 1998," Daschle told the Senate, "the average net farm income for Great Plains farmers is expected to be near the poverty line for a family of four."

Daschle reported that farm income is down in 32 states by a total of \$5.2 billion, and farm debt, at \$172 billion, is at its highest level in 13 years. In addition to the effects of this on farmers, it could also result in the loss of 100,000 jobs in rural America. Placing the blame on the 1996 farm bill and what it has done to prices, he said, "No one can survive on prices that farmers are receiving at the local elevator. They are at the levels that farms received when I was born" (in 1947).

Senator Harkin added that not only are prices paid to farmers going down, but retail prices, including those paid for farm products, are going up. The farmer's share of those prices has

forcing the right action in the future.

Dump the IMF

But President Clinton, while rightly sounding the alarm about the farm crisis, is, unfortunately, continuing to argue that backing for the IMF will restore farm export markets. At his July 23 briefing, President Clinton fell back on this, saying, "We must give the International Monetary Fund the resources it needs to strengthen and reform the Asian economies, so that they will have the money to buy our farm products. Yesterday, unfortunately, the House of Representatives delayed this critical funding for the IMF. American farmers cannot afford to wait. They need help now."

The President was referring to House Speaker Newt Gingrich's (R-Ga.) announcement that a Congressional vote on IMF funding would be postponed until September.

Radical defense of the free markets was the line taken by Sen. Pat Roberts (R-Kan.), the architect of the Freedom to Farm Act, who spoke before the American Farm Bureau Federation in Washington in July, calling for support of the IMF. "I am one who is a firm believer that the best way to strengthen commodity prices is by increasing demand," he said. He neglected to point out that it was the IMF austerity conditionalities and free-market lunacy that caused the Asian financial crisis in the first place, and that are plunging the rest of the world into a depression.

'Alternative' debated, in case Russian finance package fails

by Rachel Douglas

It took rule-by-decree in Russia, as International Monetary Fund Deputy Managing Director Stanley Fischer had proposed it would, for the IMF Executive Board to approve \$11.2 billion in "financial support" to Russia, beyond previous loan commitments. This is the portion of a \$22.6 billion two-year package, announced by IMF Managing Director Michel Camdessus on July 13 as an emergency measure, justified by the "systemic" nature of Russia's financial crisis, that represents new funding from the IMF this year. The approval was announced late on July 20.

As of July 17, the Russian State Duma (lower house of parliament) recessed for the summer, without passing the entire "stabilization program," upon which the new credit lines were contingent. Premier Sergei Kiriyenko announced that night, that the failure to pass certain tax measures and enact further budget cuts, meant that the Cabinet and the President would resort to decrees. The Duma had only approved legislation accounting for 28.2 billion rubles of additional annual revenues, whereas the assignment was to bring in 102 billion. "Regrettably, we have failed to reach a comprehensive solution on how to boost revenues," Kiriyenko said. "We can't stop at that, and will now have to act ourselves" — by government and Presidential decree.

Kiriyenko announced that he had readied a decree to levy a unified Value Added Tax, which the Duma had rejected. (Even under President Boris Yeltsin's Executive branch-oriented 1993 Constitution, only the parliament is supposed to be able to change taxes.) On July 18, he enacted an immediate 3% increase in import duties, which will raise \$160 million per year. Interfax quoted Kiriyenko, saying, "This is a harsh measure, which will entail a rise in prices for imported goods, but the government has been forced to take it to increase state revenues."

Yeltsin decreed that the government must submit the 1999 budget to the Duma by Aug. 26, announced the Kremlin press service; the document is supposed to meet IMF austerity demands, for a budget deficit even lower than the European "Maastricht" terms: no greater than 2.8% of GDP. On July 19, President Yeltsin's Deputy Chief of Staff, Aleksandr Livshits, announced that the vacationing President had vetoed two laws passed by parliament to lower taxes — a cut in the tax on profits, and a law lowering excise duties on oil sales — and had also introduced a fourfold hike in land taxes by decree.

The first tranche of IMF funding was reduced from a

planned \$5.6 billion, to \$4.8 billion, because, as Fischer put it, "Unfortunately, parliamentary backing has not been forthcoming." Kiriyenko and Central Bank Chairman Sergei Dubinin sent a written pledge to the IMF, carried by negotiator Anatoli Chubais, that the negotiated terms will be implemented by decree, with or without the Duma's action. At the same time, Fischer said he welcomed the convening of "a special parliamentary session" in August, to approve more of the austerity package. The \$4.8 billion is in the form of a credit line to the Central Bank of Russia, to bolster hard currency reserves in an emergency.

On July 21, the Russian government announced the results of another part of its package deal with the IMF, which increased the country's dollar-denominated debt by \$6.4 billion in one swoop. The government accepted bids of \$500 million cash plus 27.5 billion rubles (\$4.4 billion) of GKO short-term treasury bonds, for the issue of \$6.4 billion in long-term, dollar-denominated bonded debt at 15% interest. (The discrepancy between \$4.9 billion and \$6.4 billion is due to the bonds' carrying a coupon payout level, less than the 15%, with the uncollected interest being capitalized.) Deputy Finance Minister Mikhail Kasyanov said that about 60% of the conversions of GKO to Eurobonds were done by foreigners, but that some Russian banks had also grabbed the dollar-denominated instruments.

"After what has happened in the last few weeks, this is absolute victory," exulted Kiriyenko at his press conference on July 21.

From other government officials, a consistent cautionary phrase sounded. Livshits told a news briefing, that "the international community has met us half way for what I think will be *the last time*." Deputy Finance Minister Mikhail Kasyanov, who coordinated the conversion of GKO debt to Eurobonds, temporarily reducing the unbearable weekly debt interest and redemption burden, said, "We did it not because it was such a good operation. We believe this is *the last market instrument* to resolve the problem of debt. Russia has no other market instruments to do this."

Opposition

What if it doesn't hold?

Russia's disintegrating capital markets were supposed to be stabilized by the international financial support, and, during the week of July 13, the Moscow stock market did surge

from the vicinity of 150 on the RTS share price index, to the 190s, only to crash again. From July 20 through 23, the RTS index fell 23%, to 159.

Besides the impact of falling markets abroad, Russian stock shares fell after an action that heralds political opposition to the government's tax collection pledges, from the major Russian oil companies. On July 22, six firms released an open letter to President Yeltsin, in which they accused the government of acting under pressure from international financial organizations. The companies included Yukos and Sibneft, owned by the interests of M. Khodorkovsky and Boris Berezovsky, respectively, but also the giant LUKoil. The open letter charged that the "unwise and irresponsible" recommendations of the IMF would lead to social unrest.

LUKoil Vice President Leonid Fedun, according to NTV television's report, threatened that the oil companies would slash output, if the Russian government continued to signal, by its policies, that it has no use for an oil production sector. In Fedun's scenario, mass layoffs would ensue, while the Russian market would be flooded with oil imports from Azerbaijan and Kazakstan — whose oil fields are being developed by "American" oil multitis; this, in Fedun's presentation, is the motive for the "American" IMF to put the squeeze on the Russian oil firms.

The oil firms are protesting the shift of taxation on oil deals from the moment of payment, to the moment of shipment, as well as the Presidential veto of a reduction of oil excise taxes. Gazprom, whose chairman Rem Vyakhirev reached agreement on July 21 with Kiriyenko on a tax payments schedule, denied that it was party to the open letter, although the copy shown at LUKoil headquarters included a Gazprom official's signature.

Whether by political opposition at home or from the pressure of the next round of international financial panic, the IMF pact with the Russian government may well go up in the flames of a "hot autumn."

An alternative

On July 20, while the IMF Executive Board was meeting in Washington, Academician Leonid Abalkin gave a press conference in Moscow, to attack the government's so-called anti-crisis program, crafted to meet IMF austerity demands, as a conceptual, practical, and political disaster. Abalkin made extensive reference to the work of his organization, the Economics Institute of the Russian Academy of Sciences, and others, including the alternative program drafted by Dr. Sergei Glazyev (see *EIR*, July 17, pp. 6-9)—as among the available approaches, to put economic policy-making in Russia on a sane basis. Concerning the Glazyev program, Abalkin said, "it was initially planned that at the June 23 government meeting, [Federation Council leader] Yegor Stroyev would present an alternative program, different from the government program. Yegor Semyonovich [Stroyev] did not take that step, perhaps because the program had not been sufficiently polished. Another reason was his status as Federation Council

head because, as I understand it, he is most concerned about a public response, about the risk of an explosion, with people pointing their fingers at him as the one who would like to provoke a split. That was why his remarks were critical, but reserved, and he did not mention that program at the government meeting."

The week of the IMF agreement, the daily *Nezavisimaya Gazeta*, of which Berezovsky is part owner, printed several scenarios for emergency reform of the Russian government, through creation of a Provisional State Council, and deployment of "a mobilization model of development" for the economy. According to sources in Moscow academic circles, the publications of *Nezavisimaya* editor Vitali Tretyakov and his staff reflect intense discussion of what economic recovery policy should be on hand, for "Day X" — when the next crisis explodes, and there is no Western institution capable of providing a bailout.

Abalkin asked why the country of (turn-of-the-century reformers, students of the American System of Political Economy) Sergei Witte and Pyotr Stolypin, and of the Soviet mathematical economics school, should be following imported, disastrous economic prescriptions. If it were not for capital flight and triple-digit interest rates, said Abalkin, Russia would have no budget deficit. He said that his findings on flight capital are confirmed by reports from "Academician Yevgeni Primakov," the Russian Foreign Minister. Recently, in London, Primakov attacked the IMF and called for Franklin Roosevelt-type economic measures.

Abalkin hinted that ideas such as his and Glazyev's have sympathy in some quarters of the Russian government, but that the "anti-crisis" program is incompatible with them, and incorporates no "industrial policy" to speak of. He attacked as nothing short of lunacy, the tax-collection drive that is going to cut off electricity and gas to near-bankrupt companies. The academician also outlined a conception of how to redefine the role of the Central Bank, as a source of relatively cheap credit for the economy, instead of an agency to lend for budget-financing, at usurious interest rates.

On July 22, President Yeltsin appointed Yuri Maslyukov as minister of industry and trade. He is a former deputy defense minister of the Soviet Union for the defense industry, the last chief of Gosplan, and, as a Communist Party member of the State Duma, is the head of its Committee on Economic Policy. In 1996, Maslyukov was CP Presidential candidate Gennadi Zyuganov's economics adviser, presenting a program co-authored by economist Tatyana Koryagina, for what they called "New Deal"-type measures to revitalize Russian industry.

Maslyukov was one of only two CP deputies in the Duma, who broke party discipline to approve Kiriyenko as premier. According to Abalkin, however, Maslyukov has recently blasted the IMF-mandated "anti-crisis program" of the Russian government, saying at the June 23 government meeting where it was presented, "If you want to overcome the crisis, you should not entrust the drafting of the program to those who got us into the crisis."

The Philippines at 100

Publisher Herman Tiu Laurel chronicles the IMF experiments on the island nation, and asks: When will the IMF colonization end?

Mr. Laurel is publisher and editor of The Independent Review, as well as a newspaper columnist and radio talk-show host in Manila.

The Philippines is many things to many people. To some it is just a motley collection of islands somewhere in the Pacific, famous for its place in World War II history. Some will still remember it as home once to two American military bases, Clark and Subic. Many will associate it with the rise and fall of the Marcos dynasty, or with the volcanic eruption of the century, Mt. Pinatubo, which lowered global temperature by 1° due to the pyroclastic material it spread over the atmosphere.

In geopolitical terms, it sits at the central point of a major trade route in Asia, situated between the Pacific and the South China Sea. For this reason the Philippines became a major battle area in World War II as the key stepping stone to all points of the region. With the UN Law of the Sea ratified in 1983 extending exclusive economic rights 200 miles from the shores of a country, the Philippine archipelago and its sea territory rival the size of the major countries of the world.

The first experiment in globalization

The Philippines is a country of 72 million, rich in gold and other mineral resources, oil and natural gas in offshore deposits, and geothermal energy supplies. Over 92% of its children obtain primary education. Yet, despite all these resources and being hailed in the 1950s as one of the two emerging tiger economies (the other being Japan), it remains one of the poorest countries in the region. As one eminent nationalist-economist, Alejandro Lichauco, put it in an article published July 21, 1998, “This country has been under IMF-WB supervision for 36 continuous years, and yet it can’t even produce a globally competitive bubble gum. What we have created is, after 36 years of adherence to IMF-WB medication, is a bubble economy that has exploded in our faces.”

Few people know that the Philippines was the first experiment in the latter day International Monetary Fund-World Bank program of “globalization.” In 1962, following the U.S.-CIA-sponsored election victory of seventh President of

the Republic of the Philippines, Diosdado Macapagal, the free trade regime was first imposed on a country in this region in exchange for a \$150 million loan and an IMF “stabilization” program. That loan has multiplied to \$52 billion upon the assumption of office of the 13th President of the Republic, Joseph Estrada.

It’s not for lack of independent spirit that the Philippines succumbed to such a long subjugation to foreign economic prescriptions. In 1898, the Philippines was the first Asian nation to establish a republic and declare its independence after fighting a continuous rebellion of more than 350 years against its first colonizer, Spain. This nascent independence was interrupted by over 50 years of American colonization after Spain ceded the territory to the U.S. on Dec. 10, 1898, only six months after the Filipinos declared independence from Madrid. The ratification of the treaty taking the islands from Spain got only one vote more than the required two-thirds majority, reflecting the deep anti-imperialist and anti-“Manifest Destiny” sentiment of the American people.

Independence was re-acquired through “peaceful grant” from the American government in July 1946. The grant of independence was not altruistic, as the war-ravaged Philippines would have been an economic and financial burden to the U.S. government. On the eve of this grant of independence, the U.S. enacted two laws, one of which was the Philippine Rehabilitation Act, stipulating the much-needed war damage and compensation and financial assistance for the Philippines’ sacrifice in World War II. The assistance was conditioned on the Philippine acceptance of another law, the Philippine Trade Act, otherwise known as the Bell Trade Act. The latter imposed free trade on the Philippines.

The independent spirit of the Filipinos persisted, alternately revived in the nationalist policies of two Philippine Presidents, Elpidio Quirino and Carlos Garcia, who kept buoying nationalist economic hopes of the Philippines, in the tradition of American nationalist economist Alexander Hamilton. In the 1950s, the Philippines was considered one of the two emerging tigers of the region, as the Philippines established itself as a manufacturing economy. The major component of this economy was the foreign-exchange controls system championed by the two nationalist Philippine

Presidents and carried to its glory in Garcia's Filipino First policy.

In 1962, in a CIA-sponsored election victory, Diosdado Macapagal won over Garcia, and immediately dismantled the foreign-exchange controls under what was known as the "decontrol" program, surrendering all economic sovereignty over its currency and trade. Macapagal devalued the Philippine peso from P 2 to \$1 to double that, or P 4 to \$1, and borrowed \$300 million in one of the earliest IMF-style "stabilization" loans. The Philippines never looked back to the glory days of its manufacturing economy, and saw its foreign debt explode by nuclear proportions, from \$300 million in 1962 to \$52 billion today in 1998.

The debt trap and Asian financial crisis

The foreign debt is the most crucial factor in determining the state of health of the Philippines economy. To this day, at least 40% of the national budget is devoted to debt service. In recent years, through accounting sleight-of-hand, only about 18% of the national budget is dedicated to debt service. In the 1998 national budget, only around P 120 billion of P 570 billion is allocated for debt service. But the reality is, for example, after the 1986 change from Marcos and during President Cory Aquino's time, debts incurred through the old Central Bank of the Philippines were separated and serviced through a "board of liquidators" in a newly organized Bangko Sentral ng Pilipinas.

The Philippine foreign debt, like all Third World debt, has been repaid three times over through interest payments over 36 years. Yet, every year, the debt principal grows. With the IMF-WB-imposed economic and financial regime, no Philippine government has been able to survive without yearly infusions of today's equivalent of \$2 billion loans. Which explains the debt today, put by the IMF at \$52 billion. An historic opportunity was missed at the start of the Cory Aquino government in 1986, when the world stood in awe and sympathy for the People Power Revolution that toppled the old regime of Marcos and the financial debacle associated with it. Instead of crusading for debt reduction or condonation, Aquino pledged to "honor all debts" incurred by the previous regimes, no matter how onerous and unproductive.

The Philippine economic crisis reached new heights under Fidel Ramos, as the West Point graduate-turned-politician committed his administration to a full implementation of the IMF's liberalization, deregulation, and privatization regime. Ramos converted the former American military bases to duty-free zones and duty-free shops, and smuggling mushroomed. In the former U.S. naval base, Subic Bay, the end result after six years of this regime was a \$500 million net trade deficit. The revenue losses to smuggling are incalculable, as, for example, in the case of cigarettes, where the estimated smuggled volume rose from 400 million cigarettes in 1986 to 16 billion by 1996. Following trade liberalization, Ramos proceeded to reduce import tariffs and shifted tax

burdens to consumers through a so-called Comprehensive Tax Reform Program, which came to be known as a "deform" program where direct taxes were changed to more retrogressive indirect taxes.

To tide over the perennial fiscal and economic crises, the Philippines has relied on "export" (it would be more apropos to call it exile) of up to 8 million Filipinos to work overseas in increasingly menial jobs. Estimates of remittances from Overseas Filipino Workers (OFWs, for short) total between \$8-12 billion. But, with it, comes AIDS and a generation raised by absentee mothers or fathers, resulting in tremendous social dislocation, aggravating the illegal drugs problem and other social ills. Then, in 1997 the global financial crisis started unravelling in the region, causing the Philippine peso to drop a full 60% in value relative to the U.S. dollar.

The Philippine stock market dropped 50% from its peak of 3,400 points down to 1,700 points in the year since the first major devaluation of the peso began in 1997. GNP projections have declined from 7% to 2.5% for 1998, primarily for an economy that has been lagging by a minimum of 5% in growth annually for at least a decade, compared to the neighboring countries. Since the Asian crisis began, the ranks of the unemployed have swelled to 4.1 million, not counting the underemployed and the self-employed. Inflation shot up to 10.6% from June 1997, and in the last seven months alone, prices of basic goods increased by 19%.

Non-performing loans of the commercial banking system surged to 8.9%, and doubled to P 73.7 billion at the end of 1997 from the previous year's P 34.2 billion. By the end of February 1998, this stood at P 103.32 billion, up 40.2%, and is expected to hit 12% of the total loans in the system. This, despite the Philippine Central Bank's easing of the definition of bad loans, by exempting "all restructured loans fully backed up by collateral." Commercial loan growth dropped. Of 55 commercial banks in the country, Central Bank officials have admitted publicly that only 17 will survive as the Philippine banking crisis turns from bad to worse in the coming months. The adverse impact on Philippine banks from the Asian crisis has been delayed compared to neighboring countries due to its comparatively negative ratings *before* the crisis and, therefore, reduced exposure to offshore dollar loans.

The crisis was compounded by El Niño, which ushered in drought, and with Ramos's adherence to the IMF's preference for promoting high-value crops instead of rice, agriculture contracted by 3.3% in the first quarter of 1998 on top of the contraction in 1997. Manufacturing, which was already contracting by 2% previous to the Asian crisis, has contracted 11.8% between April 1997-1998. Construction, hit by the bursting of the real estate bubble, has contracted by 60% by some accounts. In the first quarter of 1998, vehicle sales, most of which are imported from Japan, South Korea, and the United States, fell by 58%. Wheat imports, much of it from

the United States, have declined from 1.35 million tons last year to 1.34 million tons this year, although it had had a natural growth pattern before the crisis. The economic downturn was greatly induced by the fluctuating interest rates that have risen to as high as 40% in the past two years, although this has been tapering off recently.

The centennial Presidential elections

In June of this year, the Philippines celebrated the Centennial of its Independence. It has been a year of pomp and pageantry culminating in the parades and fireworks that were held on the day, simultaneous with the traditional inauguration of a new President. This was also the year of the election of the 13th President for the 12th Republic of the Philippines (the Commonwealth period being an exception). The distinction and honor of being the Centennial President, therefore, is shared by two Presidents, Fidel V. Ramos and his successor to govern for the next six years, Joseph "Erap" Estrada.

On May 11, 1998, elections for the Centennial President pitted nine candidates. The tenth, Imelda Marcos, withdrew at the last minute in favor of Joseph "Erap" Estrada. Fidel V. Ramos could not run again because of the six-year term limits written into the 1987 Constitution. Ramos chose the lackluster and widely disliked House Speaker Jose de Venecia to be his candidate over two other aspirants; Venecia was considered to have a huge advantage, considering the use of government resources and machinery in the campaign. This choice was to become a major strategic error, for Ramos gave up the hugely popular candidate from the Senate, Gloria Macapagal-Arroyo, who was giving Estrada a run for his money, trailing in the popularity polls only by a few points to Estrada's 30% ratings. Ramos's rejection of his military ward and Defense Secretary, Renato de Villa, split the administration party. Arroyo eventually ran for Vice President and won a larger majority than Estrada, while Renato de Villa lost miserably.

Estrada was the early frontrunner in the year-long campaign, but a few major obstacles stood in his way. One was the stand he had taken during the 1991 national debate against the continuance of the American military facilities in the Philippines. Political pundits still believe that no Philippine candidate for Presidency can win without some form of blessing from the American establishment. Likewise, the Philippine business establishment, represented by the exclusive Makati Business Club, was firmly against Estrada for his perceived anti-Makati attitude and overly pro-poor personality.

Estrada's campaign battle cry was "*Erap para sa Mahirap*." The word *erap* is a contraction of the Spanish *compadre*, meaning "partner," to *pare*, and then inverted to "erap." It is a quaint localization coined decades ago, that has since become synonymous with Estrada's public persona. *Mahirap* is Filipino for the poor people, and "*Erap para sa Mahirap*" literally meant: "Estrada for the Poor." Even the upstart rich, such as Filipino-Chinese and native-Filipino businesses, are

considered by the Makati Business Club as among the *mahirap*. To remove the opposition, Estrada campaign organizers visited American conservative political bastions in the U.S. and named 40 advisers from the business sector, some of them from the Makati Business Club.

Programs for government, party platform, and economic policies did not figure as prominently in the campaign, as the star quality of the candidates. The movie actor Estrada won with 40% of the vote and a 5.7 million-vote lead over Jose de Venecia, while Gloria Macapagal-Arroyo (a look-alike of the most popular female Filipino singer Nora Aunor) won the Vice Presidential race with a margin of 6.3 million votes over Estrada's running mate, Angara. Among the 12 winning senatorial candidates were two movie stars, two television celebrities, and one basketball star, none of whom stand for any recognizable ideological or programmatic principle. The more substantial winning candidates are Senators Aquilino "Nene" Pimentel, a centrist candidate, and Rodolfo Biazon, a defender of the Republic against the several coup attempts by rightist "putschists" during the Aquino administration.

The 'new' Estrada administration

Upon assuming office on July 1, 1998, President Joseph "Erap" Estrada discovered the first dismaying fact. This government he was inheriting immediately faced a budget deficit of P 26 billion in a budget of P 540 billion. As the first week unfolded, he discovered that this deficit would grow to P 70 billion by the end of 1998, or 20% of the national budget. Just two weeks before the inauguration, when it was already clear that he would be President, the IMF and World Bank announced that they would be withholding \$1.2 billion and \$500 million of loans respectively until assurances of compliance with the liberalization program were given. Estrada's advisers have been reiterating assurances to the IMF-WB tandem ever since, such as liberalization of Philippine retail trade that will dislocate 500,000 jobs and small-scale entrepreneurs.

Like Cory Aquino and Ramos before him, Estrada has found himself compelled to make obeisance to its foreign debt. Proposals for putting controls on portfolio "hot" investments, such as the equivalents of the U.S. Tobin Tax proposal, have been opposed by the Banker's Association of the Philippines and followed by the Erap economic managers. Likewise, the privatization of 11 major profit-making government assets such as the National Power Corp. and its \$500 million share in the hugely profitable electricity distribution company, Meralco. Other assets for disposal are the Philippine National Bank (reportedly offered to George Soros), Philippine National Construction Co. (operating profitable tollways), Philippine National Oil Co., Philippine Phosphate, Philippine Domestic Satellite, and the broadcast companies IBC-13 and RPN 9. These are expected to cover P 29 billion of the budget deficit.

Into the second week of the Estrada administration, the

deregulation principle, which began with Aquino and accelerated under Ramos, took its toll on the Filipino consumer once again. Socially sensitive petroleum products were fully deregulated on July 17, which will lead to increases in prices for kerosene, liquefied petroleum gas, and regular gasoline, despite declining world oil prices. Deregulation of the major metropolitan water services were completed under the Ramos administration; the two private water services companies have since petitioned for a 100% rate increase, attributing the need to the currency crisis. Only intense opposition from the public has forestalled the increases.

Two weeks into the Estrada administration, the National Census and Statistics office reported that the top 10% of the nation's families increased their share of the economic pie by 4.5%, further widening the already wide gap between the rich and the poor. These are random samplings of the problems facing the Estrada government over the next six years. They seem to be a mosaic of the same old problems that faced all previous Philippine Presidents. The "new" administration is turning out to look very much like the old administrations.

The Estrada cabinet

The establishment and conservative elements are undoubtedly powerful. Former Congressman Ronaldo Zamora, representing banking, mining, and traditional political interests, holds the position of the Little President, that of Execu-

tive Secretary. However, even Zamora has expressed opposition to further liberalization of the agricultural sector seeing how the policy has punished Filipino farmers. Banker Edgardo Espiritu is Secretary of the Department of Finance, controlling finance, tax, and customs, and has publicly vowed to stay within IMF-WB prescriptions. Dr. Benjamin Diokno, a neo-liberal economist from the University of the Philippines, who already proposed in 1996 to devalue the peso, was named Budget Secretary. Another neo-liberal and monetarist economist from the same school, Dr. Felipe Medalla, who championed the IMF tariff liberalization and tax reforms, was appointed to head the National Economic Development Authority, in charge of economic policy. For Bangko Sentral ng Pilipinas, the old Governor, Gabriel Singson, was retained, apparently at the behest of the Bankers' Association of the Philippines and the IMF.

At the Secretary of Trade and Industry, Jose Pardo, 7-Eleven convenience store Philippine franchisee, was appointed. For the Secretary of Environment and Natural Resources, a lawyer, who has represented loggers, former Congressman Antonio Cerilles was named. For the all-important Secretary of Agriculture, where most of the government resources will be directed in the coming years, a nominee from the Angara faction, former Sen. William Dar, was appointed. Angara was Estrada's losing Vice Presidential candidate, and, since Marcos's time, legal counsel for most transnational cor-

Philippine journal features EIR, LaRouche

A new monthly theoretical journal, *The Independent Review*, was launched in the Philippines in February 1998; the editor and publisher is Herman Tiu Laurel, author of the accompanying article.

The inaugural issue's cover sports a photo of the British b'wanas' slaughter of Asian tigers, with the headline: "The Slaughter of Tiger Economies." The editor's commentary, "Casting Away Our Blinders," notes that while most people were "taken aback" when the Asia crisis hit last year, "a few were not." Among these were the members of "Katapat, a Filipino nationalist business group that has been warning of the impending crisis as a result of the flurry of hurried liberalization of the entire economy, particularly the currency." In its July 23, 1997 "Declaration of Economic Sovereignty," Katapat warned of the coming disintegration of the world financial system, as a result of "the explosion of speculative cancer," notably the derivatives market.

"Halfway around the globe," the editor continues, "an economist-philosopher by the name of Lyndon LaRouche continued to work on a campaign begun in 1975, to drastically reform the financial system that rose from the ashes of the old Bretton Woods Agreement for a fixed exchange rate regime."

The magazine introduces its readers to LaRouche's "triple curve" schematic of a typical collapse function, showing the hyperbolic growth of financial and monetary aggregates, counterposed to the plunging of physical-economic production. The article concludes with a discussion of "the battle for the world's mind," identifying the sides of the war: the "philosophies of Aristotelian 'accident,' Darwinian 'survival of the fittest,' and Adam Smith's 'invisible hand' against the philosophies of Plato, Confucius, Leibniz, Gauss, and Hamilton. . . ."

The magazine's April issue includes an interview with LaRouche, titled "A Leader Should Face His People's Greatest Fear."

The contributions are by *EIR* journalists William Engdahl, Marjorie Mazel Hecht, John Hoefle, and Colin Lowry, as well as by members of the Filipino intellectual elite.

porations in the Philippines. President Estrada has concurrently assumed the post of Secretary of the Department of Interior and Local Government in charge of all local officials and the Philippine National Police.

Television personality Orlando Mercado, a former Senator with a populist bent, who voted against the renewal of the U.S. bases, but with no distinct political ideology, and Estrada's Presidential campaign manager, is Secretary of National Defense. One of his first initiatives has been to reverse himself on the issue of U.S. military presence with regard to the Visiting Forces Agreement (VFA), which, among other

As one eminent nationalist-economist, Alejandro Lichauco, said of the International Monetary Fund-World Bank prescriptions: "This country has been under IMF-WB supervision for 36 continuous years, and yet it can't even produce a globally competitive bubble gum. What we have created is, after 36 years of adherence to IMF-WB medication, is a bubble economy that has exploded in our faces."

issues, would lead the government to possible violation of the Philippine Constitution's provision banning the presence of any form of nuclear armaments on Philippine territory. As part of the VFA, joint Philippine-U.S. military exercises would mean entry of U.S. naval vessels, which do not allow inspection and carry a policy to neither confirm nor deny the presence of nuclear weapons on board. Mercado, however, will reduce the risk of military careerism rising in the department. The post of National Security Adviser, however, went to former military Vice-Chief of Staff and Ramos's Executive Secretary, Alexander Aguirre.

One is tempted to identify the hopes for a change in the administration's policies by pointing out certain non-establishment personalities appointed to the cabinet. Foremost among these is Horacio "Boy" Morales. A former Marcos technocrat in charge of the training school for government bureaucrats called the Development Academy of the Philippines, Morales turned communist and fought the Marcos regime. He was eventually arrested and imprisoned for subversion. Prior to Marcos, Morales was involved in rural development, a task he returned to upon being released from

prison, which earned him the leadership of the "popular" faction of the leftist National Democratic Front.

The faction became known as the "popular democrats," identified as a reformist wing of the radical left, which eventually accepted such principles as "civil society." Much of the hope for reform in the Estrada movement springs from Morales's presence in the cabinet as Secretary of the Department of Agrarian Reform. He is expected to give more impetus to the land reform program, which faces tough opposition from the conservative business and landlord class elements in Estrada's own party.

Others are: Dr. Leonor Briones, an economics professor at the University of the Philippines (UP) and former leader of the anti-IMF Freedom from Debt Coalition, who heads the Treasury Department. Unlike the U.S. Treasury Secretary, who is the most powerful figure in U.S. government finance, almost co-equal to the U.S. Federal Reserve Chairman, the Treasury Department in the Philippines is there just to keep and disburse funds. Briones will have no official policy role. Dr. Karina David, another activist, was appointed head of the Housing and Urban Development Coordinating Council, the superbody for government housing programs. Ex-national democratic priest Edicio de la Torre has been appointed head for the TESDA, a government technical training center.

It is too early to say if these appointments will make any serious difference in the conduct of the new Estrada administration from the previous Philippine governments. Past administrations since Marcos's time also had token appointments from the ranks of reformists and reformed revolutionaries. The former head of the New People's Army, Bernabe Buscayno, had joined the Ramos government and the former head of the radical youth organization Kabataan Makabayan (Nationalist Youth) had joined government during Marcos's time. What the appointment of the likes of Briones and others indicates is the potential for a shift in financial and economic policies in the future, if opportunities arise. At the very least, some appointees have been trying to present the LaRouche analysis of the ongoing global financial debacle to members of the Estrada government.

Estrada's 12-point government program

While it is difficult to make any clear distinction between the policies of the past and the new administration, the latter has attempted to present a program of government for its first 100 days to help identify its initiatives. To quote the salient points directly from the program: "1) immediately restore confidence at home and abroad in our commitment and capability to continue the basic free market policies of the outgoing administration; 2) reassure the poor that they will no longer be marginalized from economic and political life, through sustainable social safety net programs and responsive governance; 3) order the immediate arrest of the most notorious criminals and drug pushers; 4) strengthen the presence of the

Office of the President in each of the three major regions (Luzon, Visayas, and Mindanao); 5) ask Congress to restore the Presidential power to reorganize the entire national government; 6) ask Comelec to computerize its entire operations for the elections of 2001; 7) create a Presidential Commission on Constitutional Reforms that will identify other necessary government reforms for which we must amend our Constitution; 8) will work with Congress to scrap the pork barrel; 9) order the immediate privatization of the largest government corporations; 10) reduce market interest rates in order to stimulate new investment from domestic and foreign sources; 11) keep inflation rate below 5%; 12) restore the market's confidence in our ability to manage the budget deficit."

A point-by-point review of these salient features points to an expected failure by the new administration. Basic "free market" policies are continuing to undermine not only the Philippines financial and economic system, but the global system itself. The budget deficit precludes any success for improved social safety nets, since there will be little or no money for it. Many are already alarmed that the amendments to the Constitution being identified at this early stage refer to lifting the principle of "protection of national patrimony," thereby opening the Philippine economy to foreign raiders. The withdrawal of the "pork barrel" will immediately withdraw resources from the grassroots, and along with the "privatization" of state assets, it is actually compelled by the budget deficits.

The reduction of interest rates will likely fail when faced with currency instability and speculation, while the 5% inflation target of point 11 has already been defeated by the 10.8% surge in inflation for the first half of 1998. Finally, the budget deficit is going to be filled only by the infusion of \$2 billion new loans and a host of new taxes that will only increase the burden on the Filipino. The other points we did not touch on are motherhood statements that need not be tackled.

One fundamental issue, which other ASEAN states are tackling, but on which we find nothing in the Estrada program, is the economic foreign policy initiative. At the recent Bangkok "Can Thailand Be Saved?" conference, Chulalongkorn University economist Somkiat Osathanugrah took the starting point on Thailand's problem as the "contagion model," and saw the need for Thailand to pursue a new foreign policy thrust, including great infrastructure projects to build out of the current depression. Such a thrust is aimed at new arrangements in the global financial and economic system that would help resolve internal ASEAN economic problems, what has been called by some as "new architecture," and what the LaRouche movement calls the New Bretton Woods. There is no such economic and foreign policy vision in Estrada's program. Without that, we see little likelihood of change in Philippine governance to more beneficial directions. However, latest indications from the Presidential office, Malacañang, are that all options remain open.

Pakistan struggles to avoid debt default

by Ramtanu Maitra

Recent statements by Pakistan's Finance Minister Sartaj Aziz indicate that the country is on the verge of a financial collapse. With a meager \$600 million in its foreign exchange reserves, fears of a debt repayment default are no longer imaginary. While the Nawaz Sharif government scrounges desperately to keep the nation financially afloat, rumors are flying thick and fast that it is the U.S. sanctions, imposed following the late-May nuclear tests by Pakistan, that has caused the crisis. The facts, however, are different.

Pakistan was in dire financial straits long before it tested its nuclear devices in the Chagai Hills of Baluchistan. The actual origin of the present financial crisis can be traced back to the policies adopted in 1988, when Pakistan agreed to the two-year structural adjustment program of the International Monetary Fund (IMF). The agreement included cutting down deficit financing by the government—a policy enforced by the IMF which unerringly leads to reduced spending in the physical infrastructure and social sectors—and paring expenditure for development. This is the price the IMF asked for ensuring that international bankers got paid during Pakistan's earlier debt repayment crisis.

In fact, over recent years, Pakistan has signed 16 loan arrangements with the IMF, though only five have been successfully completed. The other 11 were abandoned by the governments of the day as soon as Pakistan's financial situation got a tad better, because the administrators found that the IMF conditionalities were politically and socially too harsh to live with. In truth, Pakistan's deep and long-term dependence on the IMF has made its economy thoroughly debt-ridden. And, at the same time, stripped of growth potential, the country has become highly vulnerable to all fiscal and balance of payments crises.

Who killed Pakistan's economy?

In August 1990, Pakistan was facing a serious financial crunch. By Oct. 15, its foreign exchange reserves had fallen to \$100 million, which represented only two days' imports, while \$240 million of short-term market loans were up for payment. The IMF was holding back \$244 million, the last tranche of a structural adjustment loan, demanding an increase in oil and gas prices and a hike in Pakistan's electricity tariff, among other things, to reduce the country's fiscal defi-

cit. Once Pakistan capitulated to the IMF demands, the blood money was released.

A steady reduction in development expenditure for almost a decade, under the “guidance” of the IMF, in a country which is inhabited by many poor families, did what one would expect. With poor infrastructure and even weaker social services, Pakistan continued to depend heavily on agricultural commodity exports, which everyone knows is fraught with the risk of sharp fluctuations, and foreign borrowing. As the debt rose at a much faster rate than the growth of revenue—a phenomenon not uncommon in countries where development has been forcefully suppressed—Pakistan headed for the debt trap under the supervision of the IMF.

In 1997, the then-newly elected Nawaz Sharif government ran headlong into confrontation with the IMF. Pakistan now has upwards of \$40 billion in external debt, owed primarily to the IMF. The current financial crisis has its immediate origins in the latest IMF structural adjustment program—a series of six loans subjected to conditions set by the IMF—initiated by the preceding Benazir Bhutto government. The agreement has successfully prevented Islamabad from making any substantial effort to develop its physical economy.

Sharif torpedoed

The Nawaz Sharif government, following its electoral victory in 1997, gained immense popularity thanks to the promises it made to lower taxes, develop a more equitable tax base, and revive industrial growth and exports, which had declined under the previous government. Before the new government could begin to honor its pledges, the *Crédit Lyonnais Security Asia (CLSA)*, one of many mouthpieces of the IMF, issued a report predicting that Pakistan was on a “collision course” with the IMF because it would not be able to keep up with the payments on its large foreign debt. CLSA said that it felt “strongly that the current market euphoria will give way to disappointments if not panic as either the IMF pulls the plug on Pakistan or Pakistan opts for a default strategy.”

By the time the CLSA report was issued, the IMF had already begun to exert pressure on the new government to reduce the country’s budget deficit. This prompted a massive squeeze on bank credit, which is the lifeline of Pakistan’s nascent private industries. At the same time, the State Bank of Pakistan, the country’s central bank, as part of the IMF program, mopped up large sums of money from the market, killing all hopes of an industrial revival.

By August 1997, the financial situation had become extremely precarious, and Pakistan Finance Minister Sartaj Aziz was expressing hope that the talks with the IMF would result in a new, medium-term loan to support his country’s structural reforms. The \$1.6 billion structural adjustment package was signed, and fresh loans helped Pakistan keep its commitment to pay back the foreign bankers.

According to the 1997-98 economic survey prepared by

the government of Pakistan, the further damage that the IMF policy has done to the country’s weakening economy is evident. Pakistan’s annual debt repayment rose further, to an average of \$5.5 billion, and foreign exchange reserves during the 1997-98 fiscal year were whittled down to \$800 million. The country’s economy grew in the same period by a nominal 1.3%, and it was no secret that Pakistan desperately needed the third disbursement of \$226 million of the \$1.6 billion structural adjustment loan it had earlier received from the IMF, to avoid a debt default. The 1998-99 annual budget of Pakistan was fashioned totally to please the IMF and to further weaken the economy. The only role that the May 28 nuclear tests had in all this, was to provide the bankers and Washington additional leverage to extract from Pakistan additional concessions on financial and strategic issues.

The IMF has now pressured the Nawaz Sharif government to cut its fiscal deficits drastically. This has led to reduced social spending, elimination of food subsidies, and curbing of key infrastructural development—all economic fundamentals which strengthen the weak and the poor, and lay the basis for future economic growth. Unless these fundamentals are made available to the people in general, Pakistan’s revenue base and aggregate revenue cannot and will not expand, and the currency, which has lost almost 50% of its value compared to the dollar in unofficial transactions in just a few months, will further devalue. In Pakistan, the majority of the population recognizes the problem, but unless Pakistan’s political leadership makes special efforts to get rid of the IMF and its pro-banker policies, the country may soon experience a debilitating internal implosion.

A callous elite

If one were to conclude that the IMF is the only ruthless character in this drama, one would be mistaken. Pakistan’s callous elite, or rather the privileged class, have all along endorsed the IMF policies, because such policies have helped them to amass more wealth and power in a country where more than two-thirds of the population have been kept illiterate. The self-interest of politicians, bureaucrats, the landed gentry, and most military people—the core of Pakistan’s privileged class—have led to policies which are economically unsound and not in the national interest. And, when reforms were imposed on this debtor nation, and the IMF encouraged capital flight, and a foreign exchange crisis predictably resulted, the richer Pakistanis benefitted.

Even today, when the country faces a financial breakdown, a large section of the elite are plotting how to use the crisis to bring down the government and seize power. They are blaming the Nawaz Sharif government for its “high-handed approach,” financial profligacy, and corruption, but nary a word is heard against the IMF policies over the decade. Attempts made by the Sharif government to mobilize the elite to bring back the capital they took out of the country, have also fallen on deaf ears.

U.S. RTC model would collapse Japan's bankrupt banking system

by Richard Freeman and John Hoefle

The Japanese government has announced that it will attempt a bailout of its banks, modelled on many — though not all — of the major features of the Resolution Trust Corp. The U.S. government created the RTC in 1989, and employed it until it was shut down in 1995, spending hundreds of billions of dollars to bail out the U.S. savings and loan/thrift institutions. The Japanese plan is called the “Total” or “Bridge Bank” plan. Under it, the new Heisei Financial Restoration Corp. will take over insolvent banks and assume their “impaired” or bad loans. Preliminary reports indicate that there are several large Japanese banks, with a huge volume of non-performing loans, that will not be classified as insolvent, however.

William Seidman, the first chairman of America's RTC, and other financial advisers, have recently travelled to Japan, extolling the “success story” of the RTC in “solving” the S&L crisis.

But there are three principal reasons, detailed in this article and the one following it, why the Japanese should reject the RTC approach:

1. Contrary to popular myth, the RTC bailout was not a success; rather, it helped create a huge speculative bubble, which is now driving the U.S. banking system toward a catastrophic collapse. During 1985-93, the United States experienced a breakdown, not just of its thrift institutions, but of its entire banking system. The most bankrupt banks during that period were the major money-center commercial banks, led by Citibank, which was then the largest. *The United States engaged in a bailout of the whole \$5 trillion-in-assets banking system, of which the RTC bailout of the \$1 trillion-plus-in-assets S&Ls was just one important, but smaller piece.* What is critical to understand is this much bigger bailout of the entire U.S. banking system, including the U.S. government's attaching a life-support tube of money flow from the Federal Reserve's discount window to the commercial banks, and also the massive expansion of the deadly derivatives market. Without these broader measures, the RTC portion of the total bailout would have collapsed.

2. The RTC part of the bailout worked through the RTC taking over the non-performing loans of the failing thrift institutions, as well as the assets underlying the bad loans (see the accompanying article for details). Without the manipulation

of the real estate market to support prices, the RTC real estate asset sales would have been a failure, and the RTC plan would have been a failure.

But, while the United States was able to manipulate a deflation of real estate prices in the early 1990s, that would be highly unlikely in Japan today. The world is in the throes of the biggest financial disintegration in history. The idea that in the midst of this disintegration, a Japanese bridge bank would either hold directly, or supervise the commercial banks' holding of hundreds of billions of dollars of troubled real estate assets, and be able to sell them on an “upturning” real estate market, is absurd. The anticipated “upturn” is not coming. Any such Japanese plan, whatever its technical features, must depend on the sale of hundreds of billions of dollars' worth of real estate.

3. The Japanese banking crisis cannot be surgically isolated from the systemic world crisis, overhung by \$130 trillion in derivatives, which could explode at any moment. Japan must write off — not save — hundreds of billions of dollars worth of paper. This requires the measures recommended by Lyndon LaRouche: a Chapter 11-style bankruptcy reorganization of the world financial system, and a new, development-oriented Bretton Woods monetary system. The fantasy that the Japanese section of the integrated financial system could be administratively saved without writing off this paper, as LaRouche proposes, is a pipe-dream.

In sum, the gimmicks that worked in the U.S. real estate market in the early 1990s, at an immense cost, cannot be repeated now, without a hyperinflationary explosion. Before Japan engages in an RTC-style bailout of its banking system, with the starting cost placed at \$250-500 billion, its leaders should study what really happened in the U.S. banking crisis of 1986-93.

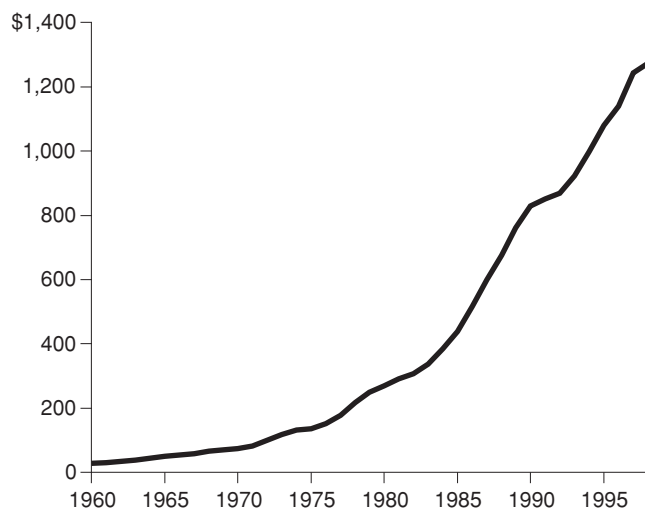
The bailout of the commercial banks

Former U.S. Treasury Undersecretary John Hawke has said that the final reorganization/bailout tab paid for the RTC plan was \$156.4 billion, of which \$128.4 billion was borne by the taxpayer. This is a stupendous figure. Still, it seems to be an underestimation; it would appear that the actual figure was closer to \$200 billion.

FIGURE 1

U.S. commercial bank lending to real estate, 1960-97

(billions \$)



Source: Federal Deposit Insurance Corporation.

But this was only the first step in the actions that were taken to bail out the entire U.S. banking system.

Although the S&L presidents were scapegoated for the crisis of those years, it was actually the commercial banks that were the principal organizers of most of the speculative real estate market, along with the Drexel Burnham/Anti-Defamation League/Michael Milken crowd of junk bonds dealers and swindlers.

Figure 1 shows the commercial banks' lending to real estate. Earlier in the 1980s, the commercial banks had been burned, as real estate properties in the "oil patch" region of Texas, Louisiana, Oklahoma, and Colorado took a nose-dive. The bankruptcy of Penn Square Bank of Oklahoma, through bad real estate deals, signalled the problem. But bankers have short memories, and they plunged right back into real estate, when the scare had passed.

The S&L problem with real estate loans, starting in 1986, and the RTC's fire sale of S&L real estate, softened the entire U.S. real estate market, and finally ignited the problem for commercial banks around late 1988 and early 1989. This became a major problem for commercial banks in and around New York, Boston, and California. Problems in commercial bank loans to the Third World also kicked in.

By mid-1990, it had become evident that more than half of America's top 15 banks were actually bankrupt, if their true condition, especially with regard to non-performing real estate loans, were declared. The net worth of several of these banks was negative or zero.

On Dec. 7, 1990, a secret Washington, D.C. meeting took

place, according to reports given to *EIR*, involving the highest officials of the Treasury and Federal Reserve. The subject involved the insolvency of six of America's biggest banks: Bank of New England, which was seized by regulators in January 1991; Manufacturers Hanover Bank and Chemical Bank, which, because they were insolvent, were merged; Security Pacific, which was merged into the barely standing Bank of America; Chase Manhattan; and Citicorp.

Of the six, the worst off was Citicorp, America's biggest bank holding company at the time, with \$217 billion in assets. The Feds already controlled Citicorp, having secretly seized the bank in November 1990, sending in teams of auditors to inspect the books, and beginning the search for capital to put a tourniquet on the bank's hemorrhaging finances. The move was kept secret, both to avoid panic and to allow a bailout to proceed without public scrutiny; but regulators took firm control of the bank and its lending and trading policies.

Officially, Citicorp had \$15.2 billion in non-performing loans. But, because of its involvement with real estate operators such as the Reichmann Brothers' Olympia & York (which itself filed for bankruptcy in June 1992), Citicorp's actual non-performing loan portfolio is estimated to have been closer to \$30-40 billion. On Aug. 2, 1991, Rep. John Dingell (D-Mich.), chairman of the House Energy and Commerce Committee, caused an uproar when he stated publicly what every person in the banking world already knew: that Citicorp was "technically insolvent." He added, "I suspect [it is] the recipient of the largesse of the borrowing window at the Federal Reserve."

On Nov. 7, 1991, four terrified regulatory agencies of the U.S. banking system—the Fed, the Comptroller of the Currency, the Federal Deposit Insurance Corp. (FDIC), and the Office of Thrift Supervision—issued a joint policy statement on the review and classification of real estate loans, telling examiners not to grade the commercial banks' real estate loans at their current market value, but rather on the basis of what their value would be if a recovery could be organized. In other words, the examiners were told to lie.

The issue concerned the bulging real estate portfolio of the commercial banks, which stood at \$830 billion at that time. Conservatively, it can be estimated that 25-30% of that was no good, and so bad that it might fetch only 70-60¢ on the dollar, and in some cases, less. *An honest classification would have closed down many of America's biggest banks, while the systemic effects would have pulled down the entire world banking system.* At a Dec. 16-17, 1991 conference of 464 of the nation's top bank examiners, in Baltimore, Treasury Secretary Nicholas Brady warned the examiners not to classify loans by existing standards.

In October 1992, a book was published, *Banking on the Brink: The Troubled Future of American Finance*, by Cleveland State University associate professor Edward Hill and former Citibank economist Roger Vaughan. It summarized events which, for the previous several years, *EIR* had already

been reporting. The book stated: “Nearly 1,500 banks are in deep trouble. Together, these ailing banks manage assets with book assets of more than \$1 trillion. *The list of invalids includes 14 of the nation’s 57 largest bank holding companies.* . . . Perhaps 1,150 banks are now insolvent—and would be shuttered if their books reflected the true value of their assets” (emphasis added). The authors pointed out that many of America’s giant banks had negative net worth.

This went far outside the domain of the RTC, which was a minor player on this side of the issue.

Scams and derivatives

Federal Reserve Board Chairman Alan Greenspan and various Wall Street financiers put together a comprehensive package which rigged the functioning of the entire U.S. credit system toward one purpose: building up the biggest bubble in history, in an insane attempt to save the existing banking system. The financiers could not create an institution to bail out the commercial banks, like the RTC for the savings and loans. There were two reasons for that: 1) Congress would not stand for it; Congress had already spent nearly \$300 billion in permanent and working capital on the S&Ls (some of the working capital would be paid back through the sale of real estate assets), and could not ask for another large sum. 2) Much now depended on reflating the real estate market. Were that not accomplished, the commercial banking system—as well as the S&Ls—could not be saved. Furthermore, Wall Street required the creation of a speculative bubble, whose earnings could be attached to the brain-dead banks. The banks’ balance sheets had to be reflated. Congress could not do this by means of legislation.

The way the financiers approached the problem was not to reflate one market at a time, but to pump up the entire bubble, thereby reflating real estate, the stock market, and other speculative operations. The use of financial derivatives exploded.

We document some of the measures that were used. Some of these measures can’t be used in Japan today, because they have already been applied there, without producing the desired results. To make them work today in Japan, would require Weimar-style hyperinflation.

The Wall Street financiers organized three principal measures in the United States:

1. *Putting the brain-dead banks on Federal Reserve life-support.* Under this plan, the commercial banks borrowed at the Federal Reserve discount window at a low rate of interest, and then the banks invested the borrowed money by purchasing U.S. Treasury bonds and bills paying a higher interest rate. It was a risk-free investment for the big commercial banks. To make it work, the Fed initiated seven discount rate cuts, bringing the discount rate down eventually to just 3%.

Table 1 shows the spread: The difference between the rate at which the commercial banks could borrow, and what they got for lending out or investing their money, in this case, in ten-

TABLE 1

Spread between Federal Reserve’s discount rate and 10-year U.S. Treasury bond

(percent)

	Discount rate*	10-year U.S. Treasury bond	Spread
1989	6.93%	8.49%	1.56%
1990	6.98	8.55	1.57
1991	5.45	7.86	2.41
1992	3.35	7.01	3.66
1993	3.00	5.87	2.87
1997	5.00	6.35	1.35

* discount rate charged by Federal Reserve Bank of New York

Source: *Economic Report of the President, 1998.*

year Treasury bonds. The spread, which was 1.56% in 1989, more than doubled to 3.66% in 1992.

Meanwhile, the commercial banks nearly doubled their Treasury holdings, from \$145.3 billion in 1989, to \$266.6 billion in 1993.

But, it wasn’t just the annual extra earnings from holding Treasuries; the commercial banks got a second break: They didn’t have to hold any reserves against Treasury holdings, while in other domains, they had to hold reserves equal to 4-10% of the value of the loans they made, depending on the type of loan. By putting money into Treasuries instead of other loans, they therefore made an extra \$3-5 billion a year. The total estimated benefit of this double-side scam of being put on government life-support, while not having to put reserves aside on Treasury holdings, for the period 1989-93, were \$35-40 billion. This bonus was not distributed across all banks, but was concentrated at the nation’s largest banks.

There were other lucrative variants from this scam, as banks depressed the amount of interest they paid depositors who held savings accounts and certificates of deposit, while charging exorbitant interest rates on credit cards, etc.

2. *Government subsidies.* Failed thrifts, holding assets of \$416 billion, were put up for sale during the RTC’s period of operation (1989-95). While *EIR* is still attempting to obtain reliable precise figures, we estimate that one-quarter—and perhaps more—of these assets were snapped up by commercial banks. That is, the commercial banks were handed, as part of the RTC’s sale of “good assets,” approximately \$100-125 billion in assets.

The commercial banks obtained these assets for a song. For example, the RTC might put on the auction block a “good S&L” with assets of \$2 billion. If a commercial bank wished to buy it, it paid the purchase price of the stock, which normally would be in the range of \$100-200 million—often only one-twentieth the value of the assets the “good

S&L” actually held. This gave the commercial bank ownership of the “good S&L” and control over its \$2 billion in assets. Moreover, much of the acquisition cost that the commercial bank paid to acquire the S&L could come from the S&L itself, once it was taken over. The commercial bank could loot the S&L’s coffers and tap its earning streams to pay for the takeover.

In this respect, the RTC bailout of the S&Ls was not so much for the benefit of the S&L sector, as to subsidize the commercial banks. The U.S. government/RTC picked up and disposed of the bad assets, and the commercial banks were enabled to buy the good assets, pruned of all problems, which could immediately start earning money for the commercial banks—i.e., a \$100-125 billion subsidy.

3. *Derivatives.* Finally, derivatives were entered into the mix, perhaps the most crucial element of all. These highly leveraged, speculative bets started to become the mainstay of the banks, earning the banks increasing paper profits. In 1987, commercial banks held \$2.96 trillion in derivatives; this rose to \$6.81 trillion in 1990, \$11.87 trillion in 1993, and \$26.7 trillion as of March 1998.

One of the ways to measure the importance of derivatives to the banks’ balance sheet, is to measure the amount of investment that banks make in “securities trading.” This includes trading in derivatives, as well as in Treasury securities and other instruments.

In 1991, it became clear how important “securities trading” was in preventing the banks from collapsing. That year, J.P. Morgan Bank reported a profit of \$1.15 billion, but it made \$1.3 billion from securities trading. Without that prop, Morgan would have lost money for the year.

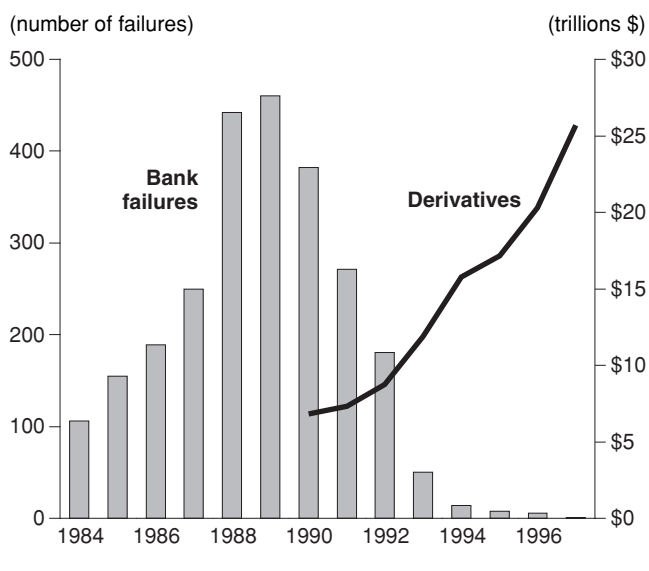
In the same year, America’s 49 largest banks—banks with assets greater than \$10 billion—would have registered an aggregate loss for the year without the trading gains; only 57% made profits with the trading gains.

By July 1992, U.S. banks had amassed securities with greater than one year maturity of \$607.4 billion, which, for the first time in 27 years, exceeded the volume of loans to manufacturing and industry that the banks had made, at \$598.5 billion. The banks junked their traditional function as providers of funds to the economy: They were no longer banks, they were high-rolling speculators.

Figure 2 plots the correspondence between the decline in the number of bank failures and the growth of their derivatives holdings. The commercial banks were restored to a semblance of health, through derivatives.

But the turn toward derivatives completely altered the landscape of the whole economy and financial system. It not only earned for banks large profits in their own right, but it reflated the total bubble of the U.S. and world economy. It helped raise the real estate market, where collateralized mortgage obligations, mortgage STRIPS, and other real estate derivatives products today total more than \$1.5 trillion. It is the derivatives market, and some other speculative games, which

FIGURE 2
Bank failures and derivatives



helped reflate the real estate market. Without that, the RTC bailout plan would have ended in utter failure.

The ugly reality is that derivatives are sucking dry the physical economy. This eliminates the basis for human physical existence, while also undercutting the derivatives themselves. The derivatives and related speculative activities, such as the highly leveraged U.S. stock market, are a cancer. They have rendered the U.S. financial system bankrupt.

In sum, in addition to the official Treasury Department figure of \$156.4 billion as the cost of the RTC’s bailout of the financial system, there is the approximately \$35-40 billion that the banks got by being put on Federal life support during 1989-93; the approximately \$100-125 billion subsidy the commercial banks were handed in the form of assets of “good S&L’s”; and tens of billions of dollars of profits from derivatives and related products. The total cost of the 1989-95 bailout of the U.S. banking system was roughly \$350 billion (were that to be done in today’s market, it would cost \$500-600 billion).

Further, it was this “total bailout” of the U.S. economy, which was used to reflate the financial bubble, including the real estate market, pulling up that market at a time when, had it not been done, the entire banking system would have gone under, bringing the RTC plan crashing down with it.

Can Japan bail out its banks?

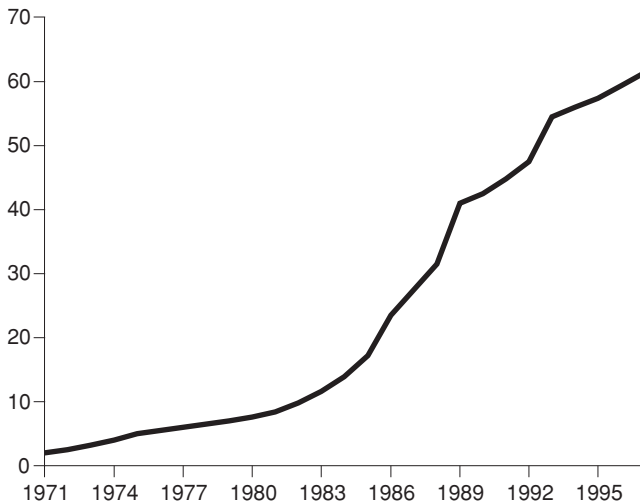
If the Japanese try to bail out their banking system, committing \$250 billion or more to the project, as the government has tentatively pledged, it will not work.

The principal reason is that, as we have shown, the RTC

FIGURE 3

Japanese commercial bank lending to real estate, 1971-97

(trillion yen)



Source: Bank of Japan.

plan was only one component of a total bailout package; to implement such a package in Japan today, would touch off a hyperinflationary explosion, as shown by the following points:

1. Japan has already put its banks on life-support for the last four years, with the central bank, the Bank of Japan, having lowered its discount rate to 0.35%. This has not saved the banks; instead, the money has flowed into speculative markets around the world. This cannot be thrown in as a new gimmick: It has already been tried.

2. Japan cannot add derivatives as a new element, as the United States did in 1987-93, since Japanese commercial banks are already staggering under \$12 trillion in derivatives. Unless Japan wants to triple its level of derivatives, a disastrous thing to do, it won't get the "kick start" that it would hope to obtain from derivatives.

3. Japan's real estate portfolio is immense. While no figure is available for the total valuation of all Japanese real estate, its commercial bank lending to real estate has risen from 2.5 trillion yen in 1971, to 7.6 trillion yen in 1980, to 61 trillion yen in 1997, an eightfold increase since 1980 (see **Figure 3**). Beyond rational planning, Japanese banks continued to lend to real estate.

Furthermore, a study by Fitch/IBCA bank analysts reports that the value of commercial real estate in Japan, principally in Tokyo and Osaka, is 70% below where it was in 1990. It will not be simply a matter of waiting six months, or 1-2 years, to have the Japanese real estate market "turn up" and sell

off the impaired assets. In the midst of the advancing world financial disintegration, a separately organized Japanese real estate price turnaround is not going to occur.

4. Japan's non-performing loans are even larger than those the United States had. German banks, operating in Tokyo, put the figure of Japanese commercial bank non-performing loans at \$1.5 trillion.

5. Above all, the Japanese banking system is part of the world banking system and world derivatives bubble. It cannot be "saved" as an independent operation, but bailing it out would require a bailout of the world derivatives bubble—an impossible undertaking, with fatal consequences if it were attempted.

Japan has got to face reality: Writing off its bad financial paper, in the context of a New Bretton Woods monetary system, as proposed by LaRouche, is the only strategy that has a chance for success.

U.S. RTC destroyed the real economy

by Kathy Wolfe and John Hoefle

Tokyo's July 2 announcement that it will deal with Japan's \$1.5 trillion in bad bank debt using a "bridge bank," on the model of the 1989-95 U.S. Resolution Trust Corp., is a prescription for disaster, just as the RTC was in the United States.

Starting in March 1981, *EIR* warned that the 1980-82 U.S. bank deregulation laws would bankrupt the savings and loan institutions, which had assets at the time totalling \$800 billion; this promptly occurred. Runs on S&Ls began in 1985; from 1987-90, the S&Ls had net losses of over \$20 billion.

Contrary to Wall Street's mythology, the "RTC process" did not save either the U.S. financial system or the S&Ls. Instead, it moved billions of dollars in consumer deposits out of S&Ls in local communities, and into Citibank, Merrill Lynch, and other large Wall Street banks and brokerages. It also slashed the *physical economy* financed by the S&Ls, the homebuilding industry, which once made the homes of the "American dream" the envy of the world.

Explaining his call for bank deregulation, Citibank Chairman Walter Wriston told *Forbes* magazine in September 1982, that Wall Street planned to grab S&L and related deposits. "Willie Sutton said he robbed banks because that's where the money is," Wriston laughed. "I see \$1.2 trillion in consumer deposits out there, and I don't see a number like that anywhere else."

FIGURE 1

Net income of U.S. thrifts

(millions \$)

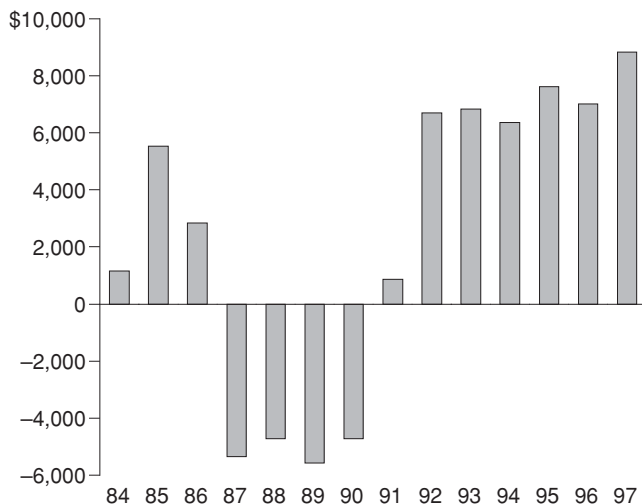
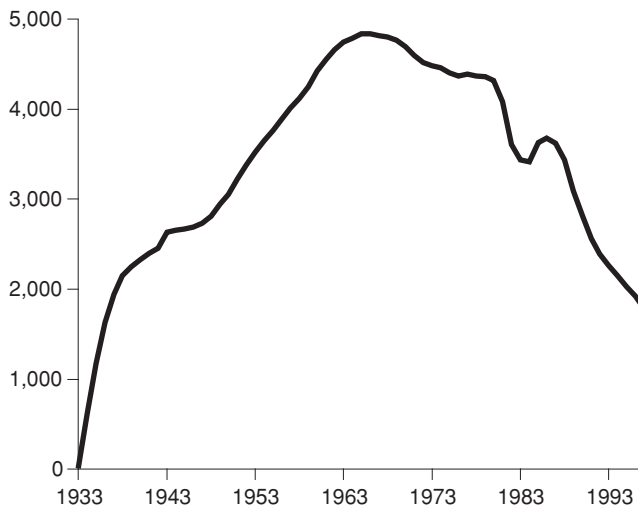


FIGURE 2

Number of U.S. thrifts



Today, London Euromarket banks and their Wall Street nephews see another “number like that” to grab: the \$12 trillion in private savings in Japan. They also want to put a dent in the physical economy of Japan and other Asian nations, which the giant Japanese banks have financed, and which British and Wall Street bankers have resented for decades. The “bridge bank” idea is more like a short pier. Certain British elites would like Japan to take a long walk off the end, and disappear into the Pacific Ocean.

The grab has already begun. In May and June of this year, Japanese citizens moved \$6.6 billion worth of private yen savings into speculative foreign mutual funds run by Citibank, Merrill Lynch, etc., Japan’s Investment Trust Association announced on July 12. Some \$3 trillion of Japanese savings will flee abroad after more deregulation in December, Princeton Economics chief Martin Armstrong predicted on June 22.

RTC: ‘Let them die’

The RTC’s “success story” is that the S&Ls and other “thrift” savings banks left standing in the United States today report record profits: \$7.6 billion in 1995, \$7 billion in 1996, and \$8.8 billion in 1997. The story goes that the thrifts were taken over during 1981-88 by crooks who lost billions, but the RTC, founded in 1989 as a “bridge bank” inside the U.S. Treasury Department, stopped the crooks, took over the bad old S&Ls, sold off their bad real estate loans, created a few good new S&Ls, and restored bank soundness (Figure 1).

The story is a fraud. The RTC and the 1980-88 deregulation laws were coordinated parts of a single banking plan written in 1979-81 at the Federal Reserve and Treasury. It was a spin-off of the Carter State Department program *Global 2000*, the blueprint to reduce world population to 2 billion people between 1980 and 2000. The authors were Fed Chairman Paul Volcker, who had called for “controlled disintegration” of the world economy, and Treasury Secretary Donald Regan, former chairman of Merrill Lynch. There, he had worked closely with Walter Wriston to lobby Congress for banking deregulation.

The main purpose of the plan was to *bankrupt* the S&Ls and other thrifts, then use the RTC to *reduce their number by half*, from over 4,000 in 1980, to under 2,000 by 1996 (Figure 2). The people who created this bankruptcy said plainly that their goal was to *reduce the S&Ls’ lending for homes*.

S&Ls and other thrifts were created by President Franklin Roosevelt in 1933 to help build America out of the Depression. They were “dedicated lenders,” mandated by law to make 85% of their loans for home-building mortgages. The law encouraged thrifts to be set up in every town to build houses, by giving them legal privileges to pay citizens more than banks paid for savings deposits. From 1933 to 1980, while other banks were limited by the law known as Regulation Q (Reg Q) to pay only 5% for deposits, S&Ls and other thrifts were allowed to pay 6%. By 1980, the thrifts had \$674 billion in deposits, and almost \$500 billion in home mortgages outstanding.

But after the 1970s oil shocks and Volcker's 1979 20%-plus interest rate shock, the Global 2000 group announced that there would now be "limits to growth." They complained that widespread home-ownership had encouraged population growth in America. The S&Ls would have to go, the Fed and Treasury decided.

"Don Regan and [Budget Director] Dave Stockman intend to let the S&Ls die," a Regan Treasury official said (*EIR*, March 24, 1981, p. 13). "We've allocated too much capital to housing. Now, we have scarce resources. The typical American wants to live in a three-bedroom house. That's asinine. He'll have to take a smaller, energy-efficient apartment. . . . Fewer homes mean Americans will have fewer children. Less space in apartments means smaller families. That's a good policy."

'Market forces'

Shortly before this statement, in March 1980, Volcker's Global 2000 crew had Congress pass the "Depository Institutions Deregulation and Monetary Control Act," which began to phase out Reg Q and the mandate that S&Ls be "dedicated lenders" for housing. It also began the phase-out of bank and S&L reserve requirements and other safety laws.

By April 1980, Fed Chairman Volcker had hiked interest rates from 6% to 20%. Commercial banks and money-market funds at Merrill Lynch moved to double-digit rates as Reg Q was phased out. Depositors began a run against the S&Ls and other thrifts, moving deposits into high-interest bank and broker accounts.

S&L profits fell 75% during 1980, and the thrifts were hemorrhaging deposits, which fell by \$117 billion during 1981, the first such drop since World War II. More than 400 S&Ls were rumored to be technically bankrupt. Desperate S&Ls began to offer double-digit deposit rates like the Wall Street banks, but they could do nothing about the almost \$500 billion in home mortgages which constituted 85% of their assets. Those loans had already been made, and the return on them was fixed for the 20- to 40-year life of the mortgages, at 7-8%. No S&L could pay 10% or more to depositors, while only earning 7% on mortgages, and keep its doors open.

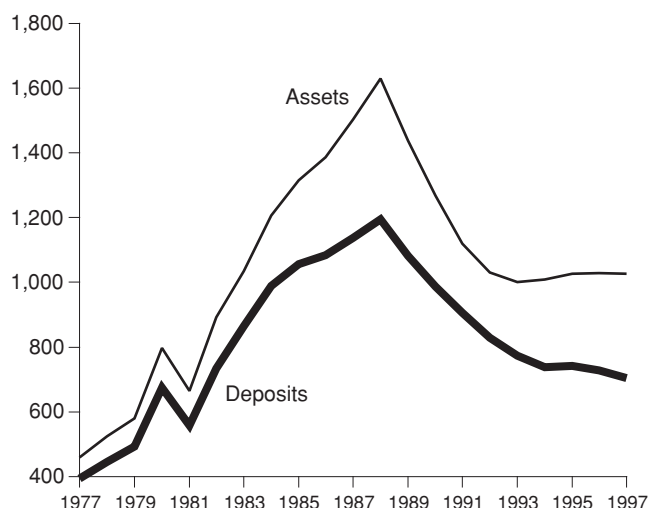
But didn't Volcker and the other "experts" know the S&Ls were locked into those 7% mortgages when they raised deposit rates to over 10%? Sure they did. It was a matter of deliberate policy. On April 28, 1981, Treasury Secretary Regan insisted that the drain on the S&Ls be allowed to continue. He told a worried Senate Banking Committee that the situation "does not warrant" any action. "We must place greater reliance on market forces to determine the structure of our financial system," he said.

"But I never got a home mortgage from Merrill Lynch," Committee Chairman Sen. Jake Garn (R-Utah) pointed out. "Not yet," said Regan (see *EIR*, May 19, 1981, p. 9).

FIGURE 3

Assets and deposits of U.S. thrifts

(billions \$)



That is, while *EIR* alone was warning about the pending doom of the S&Ls, Volcker and Regan encouraged it. On Oct. 15, 1982, Regan personally forced into law the "Depository Institutions Act of 1982," which removed Reg Q and dedicated lender mandates, and permitted Citibank and Merrill Lynch to buy S&Ls. They did so, quickly.

"Don Regan wanted to see the demise of the thrift industry," then-Federal Home Loan Bank Chairman Edwin Gray later told *EIR* in an interview about this 1980-87 period. Regan "blocked my every effort to brief the Cabinet" on the S&L crisis, he said (*EIR*, Feb. 10, 1989, p. 6).

Desperate for cash to pay 10-13% deposit rates, thrifts bought into high-yield junk bond and real estate speculation, sold to them by pirates like Michael Milken and Ivan Boesky. That is, after 1982, the S&Ls could only pay depositors by making speculative loans and investing in junk, such that total thrift assets mushroomed past \$1.5 trillion (**Figure 3**).

In 1985, the S&L systems of Ohio, and then Maryland, suffered deposit runs and collapsed. By the end of 1986, when the junk bond market blew, many thrifts were losing millions. The thrifts' 1987 losses were \$5.3 billion, and that was only the beginning, as Figure 1 shows.

More than 50 thrifts failed in 1986 and 1987 each; 222 thrifts with over \$110 billion in assets failed in 1988.

Bubble, crash, buyout

The damage was done, and Regan and Volcker laughed all the way back to their new million-dollar jobs in the private

sector. The public grew hysterical, as many lost their savings, and on Aug. 9, 1989, the RTC was formed, when President George Bush signed the Financial Institutions Reform, Recovery, and Enforcement Act.

The RTC operation was a textbook case of the method used by the financiers of old Venice to take over a competitor's market: Bubble it up, crash it down, and buy it out at a fraction of its original value. In the 17th-century "Tulip Bubble," Venetian funds whipped up the public to buy tulip bulbs and futures until prices were insanely high; then the Venetians dumped shares, creating a panic in which the Dutch market crashed. The Venetians then bought up the Dutch state debt and Dutch banks for a song, and founded the Bank of Amsterdam, Holland's central bank, as their private bank to manage the state debt.

After William of Orange imposed Dutch rule on England in 1688, Venetian and Dutch banks repeated the same "bubble, crash, buyout" program. They bought up the English state debt, and created their private Bank of England to manage it. Operating from London, these same families used this proven method to take over the New York financial market in the 19th century.

The 1980s S&L crisis proceeded in just this way: Banking was deregulated, to bubble up S&L assets, deposits, and interest rates to insane values (1979-87), with the inevitable crash

(1988). The RTC's job was to manage the buyout, at 10¢ on the dollar (1989-95).

In 1989, the RTC took over 281 S&Ls and other thrifts, with deposits totalling \$101 billion and assets of \$132 billion, and began to sell them at deep discount. Ready to enjoy the buyout were Citibank, Merrill Lynch, and a host of Wall Street vultures. At first, the RTC attempted "whole bank transfers," in which it tried to sell an S&L it had seized, both deposits and assets in one batch, to the big commercial banks and large S&Ls at deep discounts. Citibank and others snatched up several during this period and cheaply created chains in states such as Maryland, where S&Ls had suffered bank runs.

By 1991, the RTC had seized 611 S&Ls, with deposits totalling \$252 billion and assets totalling \$335 billion. Now, however, so many S&Ls were going under, and the U.S. real estate market was so depressed as a result, that the vultures refused to buy whole S&Ls. They demanded to "cherry pick" only the best pieces of flesh.

The RTC was forced, after taking over an S&L, to separate its deposits and its assets. The deposits—the cookie which Walter Wriston set out to grab—would be "bought" by a commercial bank or a larger thrift bank. The premiums paid by the commercial banks to the RTC were so small, on grounds that the deposits were "liabilities," that *these deposits were virtually given away*.

In the end, deposits in the S&L system fell by a total of \$500 billion, from \$1,200 billion to under \$700 billion (Figure 3). Those deposits, and billions more that might have been put into safe, insured S&L savings under Reg Q, have gone instead into uninsured speculative money-market funds at Merrill Lynch, Citibank, and so on. American citizens now have their savings invested, instead, in the greatest tulip bubble ever known: the stock market.

Next, the RTC would have to unbundle an S&L's mortgages, loans, and other assets, and sell them at deeper and deeper discounts. The RTC set up dozens of offices all over the United States, auctioning homes and other real estate at 20-50¢ on the dollar. Mortgages and mortgage-backed securities from the S&Ls worth some \$400 billion, were handed to big-money players for a fraction of that sum.

From 1989 to 1995, the RTC seized and sold 747 S&Ls and other thrifts, whose deposits totalled \$315 billion and assets totalled \$416 billion, in this discount dumping. *The process so depressed the entire U.S. real estate market for a short period of time, that vultures like speculator George Soros picked up many large blocks of real estate at rock-bottom prices.*

Economic consequences

The experience of the S&Ls was remarkably similar to that suffered by Asian nations after speculators destroyed their currencies in 1997. In February 1997, Korea's Hanbo Steel Co. was worth 3,500 billion Korean won; at 700 won

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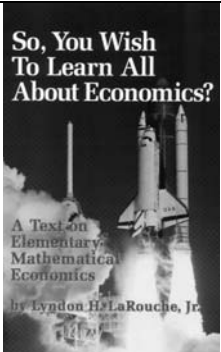


FIGURE 4

Market value of home mortgages held by U.S. thrifts

(millions \$)



per U.S. dollar, that's \$5 billion. After Soros bashed the won down to 1,600 won per dollar, the same set of steel mills called Hanbo could be bought by foreigners for \$2 billion.

The RTC brags that, while it borrowed over \$250 billion on capital markets during 1989-95, it made enough money by the sale of S&L assets to pay back all but \$85 billion, which the RTC claims is the net loss to U.S. taxpayers. Add \$71 billion lost during 1985-89 by the Federal Savings and Loans Insurance Corp., which paid off depositors of bankrupt S&Ls before the RTC existed, and the total *official* cost of the S&L bailout is \$156 billion.

The damage to the economy by the wholesale transfer of ownership of assets to speculators, however, far outweighs this figure.

Just look at what happened to housing. Even the nominal paper market value of home mortgages issued by the shrinking S&L sector, which used to be the "dedicated lender" to housing, shrank dramatically (**Figure 4**).

In 1978, before Volcker jacked up interest rates, America produced 0.029 construction units of housing (measured as housing starts) per family household per year. By 1996, this had fallen to 0.013 housing units per family, *less than half* the 1978 output. In 1978, there were more than 2 million new single-family and multi-family housing units built in America. By 1990, this number had fallen to 1.2 million, also almost a 50% drop.

Behind the dollar figures in Figure 4, which are not adjusted for inflation, we can show the same 50% collapse of housing. The median cost of a new home in the United States

in 1980 was \$70,000. During the crisis, this price more than doubled, to \$120,000 in 1990 and \$140,000 in 1996. In 1996, Figure 4 shows, thrifts held mortgages worth about \$560 billion in dollar terms—but with a \$140,000 mortgage in 1996, a family could only buy a house worth half as much, in 1980 terms.

This means that to compare the 1996 number of \$560 billion in dollar mortgages in Figure 4 with the 1980 number, we'd need to slice the \$560 billion in half, to \$280 billion. In other words, the real-world value of mortgages financed by S&Ls plummeted from \$475 billion in 1980, to \$230 billion in 1996.

It gets worse: Factor in increased interest charges, thanks again to the deregulation of Reg Q, and the cost for the same house almost *tripled* between 1980 and 1996. If interest on the mortgage is included in the home price, the average new home price was \$130,000 in 1980, but rose to about \$350,000 by 1996.

Consequences in Japan

Is it acceptable to do this to the heavy industry and infrastructure of Japan and the rest of Asia, which depend on Japanese bank lending? If Japan's Long-Term Credit Bank goes under, for example, will it be acceptable to sell off the millions of dollars in loans it holds for Japan's famous bullet trains and nuclear power plants, to foreign speculators?

In any case, it is impossible to repeat the RTC exercise in Japan. For one thing, the Japanese problem is about three times as big. At the depth of the S&L crisis in 1988, the thrift system of America had \$1.6 trillion in total assets (Figure 3). Of this, no more than 30% were bad ("non-performing") loans, totalling about \$500 billion. Japan's private banks today have \$5-6 trillion in total assets, and about \$1-1.5 trillion in bad loans.

More important is to look at the "big picture" of what was happening meanwhile to the *world banking system as a whole* during 1980-95. As Richard Freeman shows in the preceding article, the RTC's actions were able to proceed due to a multi-trillion-dollar hyperinflation of the *rest* of the world banking system.

It included an inflationary bubble created in the assets of the U.S. commercial banks, which rose from \$3 trillion in 1991 to \$4.4 trillion today; the assets of the London Eurodollar banks, which rose from \$3.5 trillion in 1991 to \$5 trillion today; and the \$5 trillion assets of the Japanese banks themselves. Not the least of these was action by the Bank of Japan, which has been printing money at 0.5% and giving it away to banks all over the world since 1994.

Japan's alternative is to demand an international conference to write down the *global* bad bank and stock paper on a cooperative basis. In this case, no nation's markets need suffer a run relative to any other's. Otherwise, Japan faces another 1930s scenario, and the world faces a crash beyond anyone's imagination.

Hanson derails Mont Pelerin juggernaut

The National Competition Policy, and related monetarist "reforms," are falling victim to their own success.

Economic "reform" in Australia is grinding toward a halt. On June 24, just 11 days after Pauline Hanson's economic nationalist One Nation Party won 11 seats in the Queensland state parliament, Prime Minister John Howard suddenly backed away from his plan to introduce "competition" into 93% of Australia's domestic mail business, by deregulating the monopoly on the shipment of all parcels under 250 grams held by Australia Post, the government-owned mail carrier. The plan, opposed by Hanson's party, would have dealt another heavy blow to rural Australia, causing job losses and branch closures in rural areas reeling from more than 1,000 bank branch closings in recent years.

Another major reform opposed by Hanson, the privatization of the remaining two-thirds of the government's telecommunications company, Telstra, has been partially derailed as well. Under tremendous pressure from its junior coalition partner, the National Party, which got clobbered by One Nation in the Queensland election and fears it will be wiped out in federal elections expected later this year, Howard's government announced on July 22 that it will privatize only 49% of Telstra, leaving it in government control. Still a third major reform, a proposed 10% goods and services tax (GST), looks shaky as well.

The victory of Hanson, who has called for national banking, tariff protection, and other economic nationalist measures, has dramatically reshaped Australia's political and economic landscape. For the last 15 years, Australia has been a laboratory for the privatization-deregulation policies of

the chief economic warfare unit of the British Crown, the Mont Pelerin Society, which has dominated both major parties, Labor and the Liberal-National coalition, as Australia has implemented one of the world's most far-reaching sell-offs of state assets. One of Mont Pelerin's keystone planks, under which much of this has happened, and under which the Australia Post deregulation was planned, is called the National Competition Policy. The day after the Queensland election, National Party Sen. Ron Boswell blamed his party's rout on precisely this, which was, he said, "like a giant vacuum cleaner, sucking people up from the bush, and depositing them on the coast."

The National Competition Policy was adopted by Australia's six state governments and the federal government in 1992, based upon the recommendations of the Hilmer Competition Committee, run by Prof. Fred Hilmer, a longtime consultant to the British mining giant, Rio Tinto. One of the other two committee members, Mark Rayner, was also a longtime executive of Rio Tinto. The company, in which the Queen is the dominant shareholder, is a chief funder of Mont Pelerin's think-tanks, which designed the whole privatization-deregulation scam under which the economy has been decimated.

The Hilmer Committee's mandate was to examine every area of the Australian economy, including the government sector, for "uncompetitive practices," and to formulate a "competition standard." The 1993 Hilmer Report recommended the establishment of two statutory bodies to police the

new regime, the National Competition Council (NCC), and the Australian Consumer and Competition Commission (ACCC). The NCC was charged with conducting ongoing reviews of competition levels in industries and recommending reforms, while the ACCC took the enforcement role; the NCC had ordered Australia Post to deregulate.

Between them, the NCC and the ACCC have cut a swath of destruction through Australia's industrial landscape. Victims of National Competition Policy have included Victoria's electricity system, which lost 14,000 jobs when it was broken up and sold off for \$20 billion during 1993-96 by Mont Pelerinite Premier Jeff Kennett; trade unions, which are being fined for "uncompetitive conduct" when fighting attempts by companies such as Rio Tinto to smash them with non-union labor; and the dairy industry in Victoria and New South Wales. The deregulation of the dairy industry, by the removal of the price controls on milk, has slashed the income of dairy farmers in New South Wales by \$10-12,000 per year. Meanwhile, Australia's two giant grocery retail chains, Woolworths and Coles Myer, have, through their sheer dominance of retailing, been given the power to set the milk price, which has soared up to 40%—some competition!

Competition reform is also targeting the marketing of farm products, such as wheat and rice, which constitute a huge portion of Australia's economy, and which is presently handled by producer boards. New South Wales is faced with a \$16 million fine by the NCC after it backed away from plans to deregulate rice marketing. The NCC-ACCC wields a huge stick in ramming through its devastating "reforms." In addition to leveling fines, it can withhold "competition payments" to the states, worth a total of \$16 billion.

Germany's 'safe' markets are not so safe

The deregulation of the financial markets in April is causing concern among those opposed to the speculative bubble.

The financial-political establishment of Germany seems confident that capital flight from Asia and other "unsafe" regions of the world will continue to flow into the "safe haven" of Germany. The DAX, the German stock market index in Frankfurt, will climb to the record mark of 7,000, and beyond, they are telling the public.

Germany's national election day is on Sept. 27, and politicians hope that any financial difficulties can be averted, at least until the day after the elections. But such hopes rest on clay feet.

This has been pointed out by some of the organizations that represent the interests of the small shareholders—the majority of citizens, who have reason to be concerned about their savings that have been converted into stocks.

In an interview on June 24, Anneliese Hieke, co-chairwoman of the German Association for the Protection of Small Shareholders, told this author that Germany is not so safe a haven as the politicians and bankers claim it is. First of all, she said, a financial market shock is in the making, because the crisis in Asia is getting close to another eruption; second, the German banks and politicians are not prepared to protect German stocks against the spill-over effects from Asia and Russia. She said that so far, the German stock market has only reported losses that were slight enough to be repaired within a few hours; but in the autumn, things might look very different.

In another big stock market crash in Asia, which many are saying could come late this summer or in the au-

tumn, Japan may be forced to liquidate its assets and bonds abroad, and these are not only placed in the United States, but also in Germany, Mrs. Hieke explained. Granted, the volume of such bonds held by Japan and other Asian investors in Germany is not as big as in the United States, but if several aspects come together, even a small pullout could lead to a drastic drop of values in Frankfurt. A shockwave from Japan and Russia, uncertainties about the future of the single new European currency, and some other bad market news could very easily form an explosive mix that might send the stock market index down, she said. And, if that happens, the real vulnerability of the German financial market would be brutally exposed, she warned.

The fact is that the government has invested a great deal of effort in lifting a number of regulations that were originally designed to protect domestic investors from global market shocks. This was done with the intent of making the German stock and bond markets even more attractive for flight capital from Asia. The Third Law on the Promotion of Financial Policy, as the legislation is called that went into effect this April, has deregulated the market to a greater extent than one would find in such deregulated marketplaces as London, New York, or Singapore.

For example, the old regulations that made it mandatory for any fund manager to document a two-year record of sound financial activities, were lifted by the new law. And a regulation that guaranteed the 30-year right of a

shareholder to sue a banker or fund manager for compensation for losses caused by unsound or criminal investment operations, was lifted, and replaced by a three-year deadline. This is particularly absurd, as many Germans invest their savings in longer-term bonds and stocks, to improve their pension levels, and the maturity of these bonds is mostly greater than three years. If a fraud is revealed, the bondholder will find out that it is too late to sue anybody, or to look for compensation.

How could such a law get passed by the Parliament? Mrs. Hieke said that the banking and political establishment is obsessed with attracting as much money as possible, to pump up the German market. But, she warned, the risks are growing by at least the same rate, as the rate by which the deregulation is advancing.

A similar assessment was given to this author by Manfred Westphal of the AGV, the national umbrella group of 37 consumer rights associations, in a discussion on July 14. A few days before, AGV Managing Director Anne-Lore Koene had warned of the vulnerability of the German stock markets, because of the very advanced deregulation that has been pushed through there.

Westphal said that both at the Frankfurt stock market and at the New Market (specializing in venture capital), asset prices are disproportionately high, some of them even excessively high—a clear sign of speculative activities. That wave of speculation began immediately after the deregulation law went into effect in April. In Frankfurt, he said, there is now less protection against fraud than there is in England, Switzerland, or France. This means that shocks from a new crisis in Asia or Russia will hit Germany much more than other countries, the AGV spokesman warned.

Business Briefs

Mining

Barrick, AngloGold embark on joint Africa ventures

Barrick Gold Corp. of Canada and AngloGold, a subsidiary of the British oligarchy-controlled company Anglo American, will undertake joint exploration for gold in Laurent Kabila's Democratic Republic of Congo, and in Mali and Senegal, the Elko, Nevada *Daily Free Press* reported on June 15. AngloGold will buy into various African properties of Barrick.

Former U.S. President Sir George Bush serves as an honorary member of Barrick's international advisory board, and Barrick chairman Peter Munk is closely associated with Britain's Prince Philip and Prince Charles.

Barrick also announced that it has signed a deal with Anglo American to exploit the Tialkam property in Niger; Anglo American and Barrick will each own 45%, and the Niger government will hold the remaining 10%.

Middle East

Israel to build Dead Sea, Red Sea rail link

The Israeli Interior Ministry has given initial approval for a rail line to connect the Dead Sea with the port of Aqaba on the Red Sea, ministry spokesman Moshe Mosco said on July 5, the *Jerusalem Post* reported. The rail line, first proposed in the Israeli-Jordanian joint committee on infrastructure projects, will zig-zag across the Jordanian-Israeli border, and provide an inexpensive method for exporting potash, salt, and other minerals.

A private feasibility study has been completed by the Japanese-based firm Nissho Iwai, Japan's sixth-largest corporation and the thirteenth-largest worldwide. Nissho has commissioned the Wheeling Lake Erie railroad company to prepare the report.

However, a source close to the negotiations between the Japanese company and the Israeli Infrastructure and Roads Ministry

said that any future projects between Jordan and Israel will not be realized until progress is achieved in the peace process. For the moment, Jordan will not enter into any deals with Israel.

"Most of the line will be on the Jordanian side and, therefore, the issuance of tender will be according to Jordanian law," explained Jordanian Infrastructure Ministry spokesman Ra'anah Gissin. The project is estimated to cost \$300-350 million. "We hope that part of the money will be obtained through investments by the World Bank, the International Monetary Fund, and other international organizations," he said.

Natural Gas

Peru refuses Royal Dutch Shell dictates

On July 15, Royal Dutch Shell informed the Peruvian government that it will not enter into the next phase of development of the Camisea gas reserves, the largest gas find in South America, estimated at 12.2 billion cubic feet of natural gas and 640 million barrels of liquid gas, located in the Peruvian jungle. The Fujimori government envisioned the Camisea project as Peru's "project of the century," with investments of \$3 billion, including construction of three pipelines to the Peruvian coast and one to Brazil, and the construction of a giant petrochemical plant on the coast.

Shell, together with Mobil Oil, had signed a contract in May 1996 to carry out the initial development of the find, with the final contract to be signed in 1998. With Peru in deep financial trouble, Shell-Mobil demanded that three additional conditions be added to the contract, before they would sign: an exorbitantly high price for the gas used domestically for electricity; the right to export gas to Brazil, before supplying the Peruvian market; and a monopoly on gas distribution inside Peru. On July 9, while President Alberto Fujimori was in London, the London *Times* threatened that his government could be brought down, should it not accept Shell's demands. Should Shell pull out of the Camisea project, it wrote,

"Questions will inevitably be asked about Mr. Fujimori's stewardship of the country."

President Fujimori took personal responsibility for the decision to reject London's blackmail, explaining to the nation why Shell's demands were deemed unacceptable. The stock market, the value of Peru's Brady bonds, and its currency, the sol, all dropped. Other mining "mega-projects" have already been cancelled since the "Asian crisis" worsened last October, and, despite fears that the same may happen to the Antamina copper project, Fujimori's decision to face down Shell's blackmail has met with support inside Peru, including from prominent businessmen who denounced Shell for pressuring Peru. Economics Minister Jorge Baca announced that the project will be offered again in two months, but divided into four parts. It is rumored that a consortium of the U.S.-based Chevron and Japan's Mitsui is interested in picking up the project.

Brazil

Maglev proposed for transport bottlenecks

Efforts are under way to modernize the transport corridor between São Paulo and Rio de Janeiro, Brazil, the German economic daily *Handelsblatt* reported on July 17, in an article entitled "Defeating Chaos with the Transrapid," which promoted the German maglev rail system. Transcorr, a consortium consisting of eight Brazilian and eight German firms, is currently working on a detailed study on the São Paulo-Rio corridor. The study is being financed by the Kreditanstalt für Wiederaufbau, with roughly \$7 million. The overall investment needed for the project is estimated at about \$16 billion.

Horst Schmidt, head of the German section of Transcorr, emphasized that two-thirds of the Brazilian Gross Domestic Product is generated in the area surrounding the corridor. However, the present transport system in the region, which has 30 million people, is described as one of "pure chaos." One proposal is to include a Rio-São Paulo maglev route for passenger traffic, and maglev

AZERBAIJAN President Heidar Aliyev planned to visit Britain in late July, the July 18 London *Guardian* reported. He was expected to sign oil and gas contracts with Ramco, British Petroleum, and Monument Oil. He planned to meet Prime Minister Tony Blair and other government officials, and was to be received by the Queen, although it was not a state visit.

IRAN will supply Sudan with 500 rail freight cars, and the Islamic Development Bank will finance the \$25.8 million purchase, Sudan's news agency reported. Sudanese engineers will be trained in maintenance and repair work, and Iran will build three small factories to make concrete slabs needed for maintenance.

THAILAND is threatening to withdraw from the International Rubber Organization, which has refused to raise market intervention prices. Thai rubber exports in the first quarter of 1998 rose to 590,000 tons, up from last year's 530,000 tons, but the dollar value fell from \$510 million to \$423 million.

JORDANIAN Prime Minister Abdul Salam Majali said on July 4 that the government will meet with Syria and Turkey to revive the Hijaz Railway, to transport goods from Europe to Jordan via Turkey and Syria. The rail line was built by the Ottomans in the late 19th century and ran parallel to the Berlin-Baghdad Railway.

IRAQ AND SYRIA agreed in Damascus in mid-July to reopen the Trans-Arabian Pipeline, which was closed in 1980 at the start of the Iraq-Iran War. Iraqi Oil Minister Amer Rashid said that the flow of 300,000 barrels per day, from the Kirkuk oil fields in northern Iraq to the Mediterranean port of Banias, Syria, will "begin as soon as possible."

PERSONAL bankruptcies in the United States will exceed 2.2 million a year by 2001, according to a study by Visa USA. A record 1.35 million personal bankruptcies have been filed so far in calendar 1998.

extensions toward the industrial center Campinas, 85 kilometers northwest of São Paulo, and toward the Atlantic port of Santos, 100 km from São Paulo. In addition, a freight line between São Paulo and Rio would be constructed, while the existing highway between the two is modernized. Two new container terminals, in Santos and in Campinas, would also be constructed.

The chief coordinator of the Brazilian transport planning agency, Roberto Menezes, warned that transport in the area, and, thus, the economy, could collapse, unless such a plan is carried out. The question is, where the money for the projects should come from. Some private investment schemes, which would be grossly inadequate, are under discussion.

Belgium

Compensation sought for derivatives losses

During 1989-93, the Belgian government signed highly speculative derivatives contracts in London (in particular, currency options and swaps) as part of its so-called "active debt management" approach. It took out huge loans in deutschemarks at low interest rates and invested the money in high-yield Italian lira assets. As a result of the 1992-93 European currency turmoil, the derivatives contracts resulted in disaster. In 1996, an internal study by the Belgian federal accounting office estimated the potential losses of the derivatives contracts, most of them expiring during 1998-2002, at about \$2.2 billion.

Now, the London *Sunday Telegraph* reports, "The Belgian government is demanding up to \$300 million from Merrill Lynch, the U.S. investment bank, to compensate it for losses it suffered during a series of high-risk derivatives deals." The deals "involved a special kind of derivatives known as 'power options' which multiplied the potential for profit or loss. Even in the arcane world of derivatives, these were regarded as highly unusual. Public hearings have been held into the affair in Belgium, but it has received little attention abroad."

Merrill Lynch recently revealed that it had offered Orange County, California a \$420 million settlement on the latter's 1994 derivatives losses. Now, the Belgian government is in "advanced negotiations" with Merrill Lynch to also receive compensation. The government's disaster has been repeatedly used as an example by the German Bundesbank, to warn states and municipalities against entering the derivatives markets.

Germany

Shortage of engineers threatens industry

Germany's industrial status is threatened because of an alarming shortage of new engineers, Helmut Becker of the ZBI, the central association of German engineering organizations, warned in Bonn on July 14.

Becker said that if present trends continue, by the year 2005, Germany would have 50,000 fewer engineers than it required to function as a leading industrial nation. He said that one of the problems that has to be solved, is the underrating of the role of engineers in designing products that are exported. Some 65% of what Germany exports today has been developed by engineers, he said. The engineering profession has to be revived, through a return of the study of technology in the schools, he said.

It is also a question of funding. Present funding of technology innovations by the government must be increased, from the present 15 billion deutschemarks (roughly \$8-10 billion) annually, to at least DM 20 billion, by the year 2002, Becker said.

Becker, a former member of Parliament from the Social Democratic Party, added that engineers are under-represented among Germany's lawmakers: Fewer than 10% of the members of the national Parliament have an engineering background. Even in the professional engineering organizations, he lamented, engineering-related decisions are often handled by administrators who have no engineering background (and therefore make the wrong decisions).

LaRouche movement flexes its muscle vs. DOJ tyranny

by Jeffrey Steinberg

A political paradigm-shift is radically altering America's political landscape. Citizens' rage at the corruption of Washington's "permanent bureaucracy" has been transformed by the LaRouche political movement into a drive to clean out the criminals in the U.S. Department of Justice, who have waged a war of tyranny against the American public for far too long. The focus of this mobilization has been to build support for the McDade-Murtha Citizens Protection Act of 1998, a bill that would, for the first time, place Federal prosecutors in the docket if they break the law through abuse of their powers.

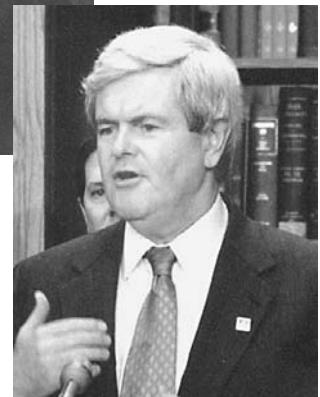
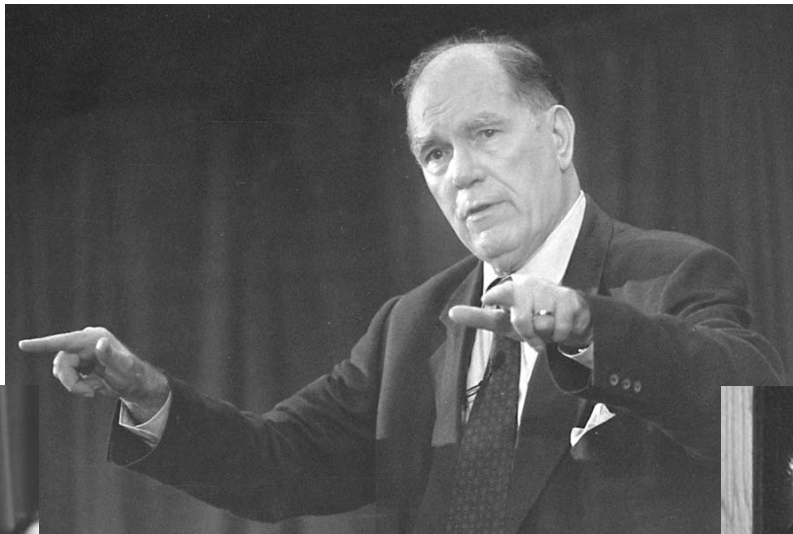
Now, with the fight over the McDade-Murtha bill reaching an end-game phase, and with the Congress preparing for mid-term elections in November, the LaRouche movement has announced plans to expand the fight for human rights in America. In addition to the drive to expose the crimes of the Justice Department, a series of town meetings is being organized, to take on two other hideous human rights violations: the transformation of America's Federal and state prisons into slave-labor camps, and the creation of similar slave-labor camps across the border in northern Mexico, under the North American Free Trade Alliance (NAFTA). In this *Feature*, we provide the documentation necessary for this fight.

The McDade-Murtha battle

On July 16, Rep. Joseph McDade (R-Pa.), the author of the Citizens Protection Act of 1998 (H.R. 3396), introduced the text of the bill, in its entirety, as an amendment to the House Appropriations bill which funds the Department of Justice for the next fiscal year. The bill, with the amendment, passed out of the Appropriations Committee by a unanimous vote, and is now scheduled for a debate and vote before the full House of Representatives within days.

H.R. 3396 would create a permanent review board to probe complaints of misconduct by Federal prosecutors, with the authority to recommend criminal prosecutions of DOJ officials who commit crimes itemized in the bill.

In June, as the list of official co-sponsors of the McDade-Murtha bill grew to



Left to right: Attorney General Janet Reno, Lyndon H. LaRouche, Jr., and Speaker of the House Newt Gingrich. LaRouche is leading a national fight against human rights violations by the “permanent bureaucracy” of the Department of Justice, and in support of the McDade-Murtha Citizens Protection Act of 1998. Gingrich has worked aggressively to prevent the passage of the Act, while Reno vigorously defended the DOJ prosecutors and said she would urge President Clinton to veto the Act, if it were passed.

more than 150 representatives, Attorney General Janet Reno came out publicly in opposition to the bill, and vowed to pressure President Bill Clinton to veto it, should it reach his desk. Reno’s action came days after the LaRouche-founded Schiller Institute conducted a week of lobbying on Capitol Hill, with participation by ten representatives from among the most powerful state legislators around the country.

The Department of Justice, through a number of front groups, including the National Association of Assistant United States Attorneys (Naausa) and the FBI Agents Association, deployed to Capitol Hill, beginning in late May, in a desperate effort to disrupt the momentum toward the McDade-Murtha bill’s passage. Members of the House and Senate with long-standing ties to the Justice Department permanent bureaucracy, joined in the effort to stop H.R. 3396.

Sen. Jefferson Beauregard Sessions (R-Ala.), a former U.S. Attorney and Alabama State Attorney General who reinstated chain gangs in the state prison system, boasted about his collusion with Reno and the DOJ against the Citizens Protection Act, at Senate Judiciary Committee hearings on July 15, the day before McDade put the bill before the Appropriations Committee.

Bill McCollum (R-Fla.), a member of the House Judiciary Committee, was another aggressive opponent of the bill. Before he moved his bill out of the Judiciary Committee, McDade had succeeded in shifting the jurisdiction over H.R. 3396 from McCollum’s subcommittee, to another, headed by the far more sympathetic George Gekas (R-Pa.). McCollum’s notion of justice and human rights is revealed in his current

sponsorship of a House bill that would open America’s Federal prisons to exploitation by private corporations, seeking “slave labor” workers, to allow their goods to “compete” on the global market.

It is noteworthy that, although support for McDade-Murtha has come from a majority of Republican and Democratic rank and file members of the House, the Gingrich-led Republican leadership in the Congress has worked aggressively against the bill’s passage, while the Democratic leadership has sat on the sidelines. Indeed, on the Democratic side of the aisle, Congressional Black Caucus members Maxine Waters (D-Calif.), John Conyers (D-Mich.), and Jesse Jackson, Jr. (D-Ill.) stand out as three hysterical opponents of McDade-Murtha, a position that has not been lost on their constituents and other colleagues in the Black Caucus.

Despite the DOJ-FBI hooligan tactics, momentum in support of McDade-Murtha grew, as Congress prepared for the Fourth of July recess. During the recess, hundreds of voters mobilized by the Schiller Institute, in every part of the country, met with their Congressmen back in the districts, to press for their co-sponsorship of the bill. By *EIR*’s calculations, when Congress returned from the recess, nearly 200 members had either formally signed on with the Clerk of the House as co-sponsors, or had informed their constituents that they were about to co-sponsor. In short, the bill was at the threshold of reaching an absolute majority of support in the House, when all hell broke loose.

Above all, the DOJ is committed to stopping the planned public hearings before the House Judiciary Committee on the

bill. Such hearings threaten to blow the lid off decades of Justice Department tyranny and criminality, directed against constituency leaders, against African-American officials and political leaders, and particularly against political figures, like Lyndon LaRouche, whose policies pose a serious threat to the international financial oligarchy.

The DOJ and the FBI dispatched a veteran of the Hill, former Rep. Ed Bethune (R-Ark.), as its chief thug in the drive to defeat McDade-Murtha. Bethune had been the so-called “ethics adviser” to House Speaker Newt Gingrich (R-Ga.) in 1996, when Gingrich was facing criminal prosecution and House censure. Bethune is reputed to have used every hard-ball tactic in the book to salvage Gingrich’s post as Speaker.

Bethune personifies the links between the corrupt DOJ bureaucracy and the higher-ups in the financial oligarchy. He has recently been a lobbyist for Seagram’s, Royal Dutch Shell, the Bush-linked Enron energy corporation of Texas, and Africa Resources Trust—an adjunct of Prince Philip’s World Wildlife Fund (WWF), a murderous front for the Anglo-Dutch oligarchy. Bethune, a former FBI agent, is now the general counsel to the FBI Agents Association.

While *EIR* has not yet assembled a full picture of the events leading up to McDade’s parliamentary maneuver, which short-circuited the immediate prospect of House Judiciary Committee hearings and put the Citizens Protection Act directly before the full House for a vote, it is known that he came under immense pressure from the Bethune-led DOJ protection squad, in the days leading up to his action.

The LaRouche factor

According to one Congressional source, McDade and other backers of the bill were told, point blank, that if they proceeded with the planned Judiciary Committee hearings, McDade would go down in history as “the man who thrust Lyndon LaRouche into political power in the United States.”

Another former Congressman put it this way: “LaRouche has been fighting for five years to win exoneration, following his frame-up and jailing in the late 1980s. A public airing of the LaRouche railroad before the House Judiciary Committee would have had far-reaching implications. It would have been a far more significant political break-out than even a Presidential exoneration. LaRouche’s enemies couldn’t let that happen. Not in a million years.”

The issue of public hearings was vital for the bill’s sponsor. From the outset, McDade, who has served 36 years in the Congress, and who beat back a vicious DOJ effort to railroad him into jail on fabricated racketeering charges related to a Pentagon procurement “sting,” had told associates that the public airing of the crimes of the DOJ was pivotal to his drive to create an oversight board “with teeth.” He saw the tremendous support for McDade-Murtha, from his fellow Members of Congress on both sides of the aisle, and from the American public, as a clear mandate to proceed with such hearings.

McDade had also indicated that he was prepared to include issues first taken up in the Mann-Chestnut August 1995

Independent Commission hearings, at the Judiciary Committee hearings on his bill. The Mann-Chestnut hearings took testimony on Operation Fruehmenschen, which targeted African-American officials; the LaRouche frame-up; and the Justice Department’s Office of Special Investigations effort to carry out the “judicial” murder of John Demjanjuk, who was falsely accused of being the Treblinka concentration camp mass-murderer “Ivan the Terrible.” These cases demonstrated a systemic pattern of corruption by the permanent prosecutorial mafia at the DOJ.

McDade had indicated that he was prepared to take testimony from former Attorney General Ramsey Clark and attorney Odin Anderson on the details of the LaRouche case.

The fate of the McDade-Murtha bill is now ambiguous. If, as is expected, the House of Representatives passes the DOJ Appropriation bill, with the Citizens Protection Act language intact, the bill will then go to House-Senate conference. The Senate has already passed its DOJ appropriation, without McDade-Murtha parallel language. Senate Majority Leader Trent Lott (R-Miss.) is expected to use every parliamentary trick in the book to prevent the inclusion of the Citizens Protection Act language in the final version of the bill. With Senate Judiciary Committee Chairman Orrin Hatch (R-Utah) collaborating with Sessions to prevent McDade-Murtha from being signed into law, its prospects of surviving the conference committee appear to be a long shot.

However, the flexing of political muscle by the LaRouche movement cannot be ignored. Whereas, for years, the ideas of Lyndon LaRouche have reached into every pore of the political establishment in the United States and abroad, it was only with the McDade-Murtha mobilization that the LaRouche movement demonstrated a level of constituency support and activism that could move a majority in the U.S. House on a vital issue—even one that was vigorously opposed by the heart of the “secret government” and by the oligarchs of the London-centered Club of the Isles.

The fight to expose DOJ corruption and tyranny cannot, at this point, be stopped, even if the planned House hearings don’t take place in the immediate future.

The latest indication of the break-out of the fight against DOJ tyranny, came in a surprise move in the Senate on July 22. Dale Bumpers (D-Ark.) introduced an amendment to the Senate Commerce, Justice, and State Appropriation bill, which would have allowed grand jury witnesses to bring attorneys into the grand jury room. The Senate rejected the amendment; however, 41 senators voted in support of the proposal, and Judiciary Committee Chairman Hatch felt compelled to agree to send the matter to the Judicial Conference for a review. Hatch agreed to a similar judicial review of another Bumpers bill, which would force prosecutors to provide grand jurors with exculpatory evidence.

The next step

In response to the assault to stop hearings, the LaRouche movement will broaden the campaign against human rights

violations in America. Some of the most outspoken *opponents* of McDade-Murtha in the Congress have been the leading *proponents* of brutal human rights violations, including the willful spread of slave-labor policies inside the United States, and across the border in Mexico.

This is no accident. The DOJ's targetting operations have always been directed at individuals and institutions that the financial oligarchy has deemed "potential adversaries." Nothing demonstrates this more clearly than the railroad prosecution of LaRouche, who was singled out in the early 1970s by the likes of McGeorge Bundy and his protégé (and self-admitted British agent) Henry A. Kissinger, as a "potential threat" to the power of the financial elites of London and Wall Street. Hence, the issue of Congressional hearings on the LaRouche case was a *casus belli* for the DOJ and its backers.

Under the North American Free Trade Agreement, U.S. and foreign corporations have established a no-man's land of slave-labor private work camps, all along the northern Mexican border with the United States. As *EIR* warned, even before Congress passed NAFTA, this "Auschwitz south of the border" has wrecked living standards of working families in both the United States and Mexico. It is not coincidental that the ongoing strike by the United Auto Workers against General Motors, is over the impact of globalization on the U.S. auto industry. And it is not irrelevant that the United Steelworkers of America (USWA) recently filed a lawsuit in Federal court in Birmingham, Alabama, challenging NAFTA as unconstitutional. The move may signal that the labor movement is, at last, prepared to wage a war, as the LaRouche movement has, against this new eruption of slave-labor policies.

Complementing the hideous consequences of NAFTA, Representative McCollum and his confederates are pressing ahead with a variety of legislative initiatives and "pilot programs" aimed at transforming America's labor force into a modern form of chattel slavery. There are currently 1.7 million Americans incarcerated in Federal, state, and local prisons; and, this "captive" population has been targetted for a special role in driving down living standards of all American working families. The various state-run workfare programs that have been implemented since President Clinton's summer 1996 capitulation on the welfare reform bill, have created an adjunct to the prison-based slave-labor workforce: a small army of welfare recipients, who are being herded into jobs that were formerly filled by regular employees enjoying full wages and benefits.

Is it any less a form of slave labor if prisoners are being forced to work at sub-minimum wages under lock and key in American prisons, to feed an export market for cheap goods, than if the prisoners were in Chinese prisons? This is a question that the LaRouche movement is posing to Frank Wolf (R-Va.), a fanatic champion of "human rights" violations in places like China and Sudan (where it serves British interests), but a defender of DOJ tyranny in America.

Likewise, is it any less a violation of basic human rights to force Mexican workers, in *maquiladoras* near Matamoros

or Ciudad Juárez, to work for \$1 a day, producing auto parts for GM, than it is to complain about sweatshops in China?

The report that follows takes you on a walking tour of the "commercial" slave-labor camps that now dot the U.S.-Mexican border, and shows what the impact of NAFTA has been on the economies and conditions of life for Americans and Mexicans alike. It also gives a shocking view of what goes on in America's Federal and state prisons.

In the days ahead, LaRouche activists will be organizing constituency organizations, trade union leaders, state legislators, and members of Congress to build town meetings, expanding the scope of the battle for human rights in America.

By the time Congress recesses in early October, to complete the race to the November mid-term elections, the Gingrichites and their FBI and DOJ cronies are going to be wishing that they had allowed the Judiciary hearings on McDade-Murtha to proceed—rather than exposing their filthy hands in front of an American public that is smarting for a good fight.

Testimony

Three cases of DOJ prosecutorial misconduct

The following testimony was submitted by the Schiller Institute to the Committee on the Judiciary, United States Senate, July 13, 1998:

On June 15, 1998, Attorney General Janet Reno sent a letter to Rep. Henry Hyde, chairman of the House Judiciary Committee, presenting the views of the Department of Justice regarding H.R. 3396, the "Citizens Protection Act of 1998," now pending in the House. As of this date, H.R. 3396 now has over 200 co-sponsors.

Attorney General Reno emphasized to Chairman Hyde that "the Department is committed to ensuring that Department attorneys and other employees maintain the highest ethical standards." The Attorney General explained: "The Department has in place a formal disciplinary system administered by the Office of Professional Responsibility (OPR)," and she described how the Department has more than doubled the number of attorneys in OPR since 1993, as well as outlining various other measures taken by the Department.

From this flowed the Attorney General's conclusion: "Additional, duplicative disciplinary authority over the public servants of the Department of Justice who devote their efforts to the rule of law is unwarranted and unnecessary."

At her weekly press availability on June 18, the Attorney General was asked about the Citizens Protection Act of 1998, and she responded: "I think the sponsors of this bill are trying to solve a problem that really doesn't exist."

We will limit our response here to citing three of the most egregious cases of gross prosecutorial misconduct—which remain unredressed to this day. These three cases, without more, absolutely belie the Attorney General’s claims that additional oversight over the Department is “unwarranted and unnecessary,” and that H.R. 3396 addresses “a problem that really doesn’t exist.”

These are:

1. the Lyndon LaRouche case;
2. the targeting of African-American elected officials, known as “Operation Fruehmenschen”; and
3. the John Demjanjuk case.

These three cases were the subject of two days of public hearings held in Tysons Corner, Virginia on Aug. 31-Sept. 1, 1995, by an independent commission initiated by a group of current and former elected officials and prominent civil rights leaders. The proceedings of these “Independent Hearings to Investigate Misconduct by the Department of Justice” have been made available to all Members of the United States Senate and House of Representatives. Following are brief summaries of these three cases.

The LaRouche case

Former Attorney General Ramsey Clark has stated that the case of Lyndon LaRouche and his associates “represented a broader range of deliberate cunning and systematic misconduct, over a longer period of time, utilizing the power of the Federal government, than any other prosecution by the U.S. government, in my time or to my knowledge.”

In 1988, U.S. District Judge Robert Keeton of the District of Massachusetts found “institutional and systemic prosecutorial misconduct” during the Federal trial of LaRouche and others in Boston. That prosecution ended in a mistrial in May 1988 after almost four years of proceedings—after which the Justice Department moved the LaRouche prosecution to a venue considered much more favorable for government prosecutors: the Federal court for the Eastern District of Virginia, sitting in Alexandria.

Indictments and prosecutions were rushed through in Alexandria in two months, with the government’s case relying heavily on the failure of publishing companies operated by associates of LaRouche to repay loans given by political supporters. The inability to repay lenders and other creditors was the consequence of an unprecedented involuntary bankruptcy proceeding initiated by the Justice Department against those companies in 1987, initiated in an *ex parte, in camera* (i.e., secret) proceeding.

Two and one-half years later, after the convictions and imprisonment of Lyndon LaRouche and several associates, U.S. Bankruptcy Judge Martin V.B. Bostetter dismissed the government’s bankruptcy petitions. Judge Bostetter found that Federal officials had acted in “objective bad faith” and that they had perpetrated a “constructive fraud on the court,” when they illegally put the three publishing companies into involuntary bankruptcy.

This is but one example of numerous categories of prosecutorial misconduct in the LaRouche cases. There are six volumes of evidence, on file with the Fourth Circuit U.S. Court of Appeals in Richmond, Virginia, cataloguing the massive criminality by the Department of Justice, in its 1983-89 drive to destroy the political movement founded by Mr. LaRouche. This includes withholding of exculpatory evidence, suborning perjury and witness tampering, collusion with private parties, and illegal leaks from prosecutors to the news media.

On July 20, 1993, Mr. LaRouche’s attorneys made the first of a series of requests to Attorney General Reno, asking for an internal Justice Department review of the misconduct in the LaRouche case. Such a review has never been conducted—and inquiries about the LaRouche case are generally referred to the same units in the Department’s Criminal Division which were responsible for this travesty in the first place.

If existing Department of Justice internal oversight procedures are sufficient and adequate, why has there been no action taken against those responsible for the misconduct which pervaded the LaRouche prosecutions?

African-American elected officials

“Operation Fruehmenschen” was the FBI’s own designation for the Justice Department/FBI campaign to frame up, jail, and drive from office, hundreds of African-American elected officials, because, in the words of one FBI agent, high-ranking officials at the Bureau believed that “black officials were intellectually and socially incapable of governing major governmental organizations and situations.”

Operation Fruehmenschen was launched by no later than 1977. Detailed testimony, including the sworn statement of the FBI official from which the above quote is taken, was presented to the House of Representatives in January 1988, at the behest of Rep. Mervyn Dymally (D-Calif.). Yet, ten years after that testimony, and more than 20 years after the racially motivated campaign was instigated, there is, today, mounting evidence that Operation Fruehmenschen is alive and well, despite even occasional efforts by the courts to curb this particularly vile pattern of abuse. Recent Justice Department indictments and probes of high-ranking African-American state legislators in Arkansas, Ohio, Maryland, and Massachusetts are but a few of the most glaring recent indications of the continuing pattern of politically targeted, and racially motivated actions by the Criminal Division, in hideous violation of both the letter and the spirit of the U.S. Constitution.

This most recent outbreak of racially targeted prosecutions by the Justice Department is all the more damning, because the courts have taken an unambiguous stand against the Fruehmenschen abuses. On Feb. 28, 1997, U.S. District Judge Falcon Hawkins of South Carolina issued a stinging 86-page Order, dismissing a series of frame-up convictions of some of South Carolina’s most important African-American elected officials, conducted under the code-name “Operation Lost

Trust.” In all, 28 predominantly African-American state legislators, lobbyists, and other political figures were indicted under Lost Trust.

Judge Hawkins dismissed several of the convictions with prejudice, and, in his opinion, singled out the Justice Department’s Office of Professional Responsibility (OPR)—the very agency which is supposed to be the internal “watchdog” within the Justice Department! During 1994, the United States Attorney had asked OPR to investigate allegations of prosecutorial misconduct; Judge Hawkins in his 1997 order severely criticized OPR’s investigation, as well as the conduct of FBI Director Louis Freeh in giving a press conference at the courthouse in Columbia, S.C., claiming that OPR had cleared the government of charges of misconduct. Judge Hawkins called this “appalling,” and he found that OPR’s investigation was incomplete and inadequate.

Judge Hawkins further stated his disagreement with OPR’s finding that the failure to provide discovery and other prosecutorial actions were only “incremental mistakes and misjudgments.” Judge Hawkins wrote: “The court cannot agree with this [DOJ/OPR] finding because the failings of the government to provide meaningful discovery were so numerous that it would be disingenuous to say that these mistakes were incremental failings rather than intentional or wrongful decisions.” And: “The withholding of such a voluminous array of discovery which the government had to know was exculpatory and relevant to the defenses of these defendants is unprecedented before this court. The court finds that these violations are too numerous and too specific to certain issues to be considered simply unintentional or the result of neglect.”

Overriding OPR’s findings, Judge Hawkins declared that “the misconduct here is repetitious, flagrant and long-standing.”

Former Attorney General Ramsey Clark’s experience with Janet Reno in the LaRouche case, was mirrored in the Attorney General’s handling of the Lost Trust cases. Sen. Ernest Hollings (D-S.C.) went personally to the Attorney General, to seek an independent review of the DOJ and FBI handling of Lost Trust. The Attorney General assured Senator Hollings that she would personally review the matter; but she then turned around and handed the review over to those who bore the blame for the misconduct in the first place.

If existing Department of Justice internal oversight procedures are sufficient and adequate, why has there been no action taken against those responsible for the misconduct found by the court in the “Lost Trust” cases?

The John Demjanjuk case

John Demjanjuk is a Ukrainian-American who was unjustly stripped of his U.S. citizenship, and deported to Israel, by the Justice Department’s Office of Special Investigations (OSI) for allegedly concealing his involvement in war crimes at the Treblinka death camp in order to immigrate to the United States. John Demjanjuk’s ordeal began in 1978. It led

him to death row in Israel. Demjanjuk’s citizenship was only recently restored last month, and it is possible that OSI will once again attempt to expel him from the United States.

All the while, the OSI had evidence, which it withheld from Demjanjuk’s attorneys, demonstrating that they were knowingly targeting the wrong man with forged and falsified evidence. One OSI prosecutor resigned from the Department, when his repeated written warnings that Demjanjuk was not “Ivan the Terrible of Treblinka,” were ignored.

When the Chief Judge of the Sixth Circuit U.S. Court of Appeals learned, through reading an article in the *New York Times*, of the prosecutorial abuses in the Demjanjuk case, he initiated a review of the case, after Robert Mueller, then the head of the Department’s Criminal Division, refused to even reply to the Judge’s letters and telephone calls, asking for corroboration of the *New York Times* allegations. The Sixth Circuit took the unusual step of appointing a Special Master to probe the conduct of the Justice Department, and, eventually, the Circuit ruled in November 1993 that OSI had “acted with reckless disregard of the truth,” and had carried out “prosecutorial misconduct that constituted a fraud on the court.”

Neither Attorney General Reno nor the Department has ever taken responsibility for—or even acknowledged—the prosecutorial misconduct which almost resulted in the wrongful execution of John Demjanjuk.

If existing Department of Justice internal oversight procedures are sufficient and adequate, why has there been no action taken against those responsible for the misconduct and fraud found by the court in the Demjanjuk case?

Conclusion

These three cases are the most egregious examples of gross prosecutorial misconduct which the Justice Department’s internal oversight mechanism has completely failed to address or remedy. There are many others. But in these instances, even where courts have found a pattern of systemic misconduct and fraud on the courts, the Justice Department “circles the wagons” to protect its own: the career officials and prosecutors who make up the Department’s permanent bureaucracy.

It is this permanent apparatus that *Time* magazine described, in the first weeks of the Clinton administration in early 1993, as “the most thoroughly politicized and ethically compromised department in the government.” *Time* magazine reported: “Politics have invaded the Justice Department in many administrations. . . . What is different about the Justice Department that Clinton is inheriting is the depth to which politicization has seeped into the bureaucracy, which includes 92,300 people.”

It should be obvious that this bureaucracy cannot police itself. Despite the Attorney General’s assurance, we insist that vigorous and permanent oversight, and outside review—such as that contemplated by H.R. 3396, the Citizens Protection Act of 1998—is absolutely essential.

At stake in GM strike: globalization's destruction of labor and industry

by Richard Freeman

The United Auto Workers strike against General Motors' Delphi East plant in Flint, Michigan, which started on June 5, is an action of enormous strategic importance for the United States, and indeed, for the entire world economy. For 20 years, with increasing ferocity, GM, as well as Ford and Chrysler, has carried out the British oligarchy's policy of "outsourcing," the leading edge of globalization: gutting and shipping out plant and equipment from the industrial belt in the United States, ratcheting down wage levels, and firing workers, while production facilities are transferred to low-wage centers in the United States (especially in the South), or to GM-run Auschwitz-style slave-labor *maquiladora* factories in Mexico.

Either this globalization is halted, or there will be no industrial capacity and labor force left to economically reproduce the human race.

The reasons for this are an issue of basic economics. As Lyndon LaRouche has emphasized, economics starts with man in the image of God; that is, man has a divine spark of creative reason, which makes possible revolutionary scientific discoveries of principle. Man applies these discoveries to promote the capital-intensive, energy-intensive development of the economy and the cognitive capacity of the labor force. The advanced sector can help the Third World to develop these capacities and to build infrastructure—water management systems, high-speed rail, nuclear power plants—that will raise it to advanced sector standards.

But there is an alternative, Hobbesian, conception: that man is essentially a beast, only fit for labor paid at or below subsistence levels; that industrial capacity should be hollered out of the advanced sector, and new plants built in the Third World—not for development, but only for looting, with the strictest cost-accounting slashing of living standards.

GM identifies with the second conception. It has long considered shutting down the GM Delphi Automotive Systems parts plant in Flint. In so many words, the message was conveyed to the workforce: Either agree to drastic wage reductions, or GM will close the factory. During the current strike, GM has howled that because the UAW has had the effrontery to strike, GM now will not make new investments in the plant. But for years, GM did not make any significant investment in that plant anyway, or in most of its part-producing plants in the United States. Since 1985, GM has laid off

15,000 workers at its plants in Flint, reducing its workforce there to 47,200. Yet, because Flint still depends on GM for 36% of its manufacturing jobs, and 60% of its direct and indirect payroll, the loss of GM jobs has caused the city to shrink. In 1980, it had 159,611 people. That shrank to 140,761 in 1990, and today, the population is about 125,000. In sum, GM's policies have destroyed a city.

Since 1992, across the United States, GM has closed four car-assembly plants, and closed or sold off 19 parts-producing plants. The company's long-standing pattern of disinvestment from the United States is clear.

Instead, GM has invested its money in a slave-labor system in Mexico, which represents one of the final steps of Nazi labor recycling: the *maquiladora*, an in-bond assembly plant. GM's Delphi Automotive System integrated auto parts system operates 53 *maquiladoras* in Mexico. In the case of Delphi, raw materials and semi-finished parts are shipped from the United States to Delphi *maquiladoras* in Mexico. There are no Mexican customs duties, so it is like shipping raw materials inside the United States. Once at the *maquiladora*, the Mexican workers assemble the parts into a finished component. It is then shipped, duty-free, back across the border to the United States for final assembly.

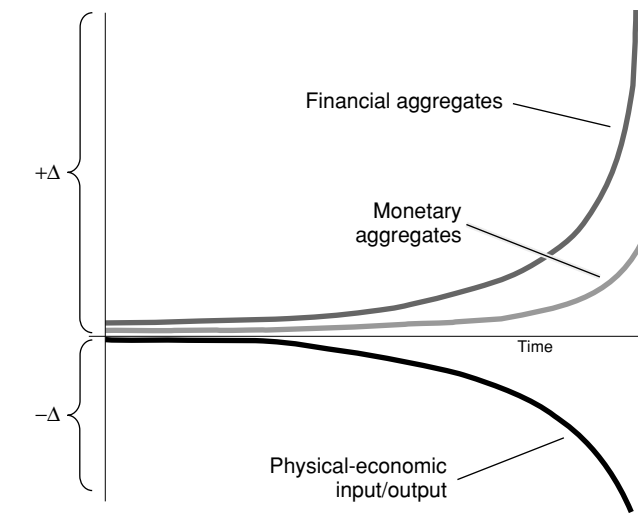
In effect since 1965, the *maquiladora* system was greatly strengthened by the passage of the North American Free Trade Agreement (NAFTA), in 1994.

If it were not for the slave-labor system at the *maquiladoras*, it would make no sense for GM to pay the transportation costs to ship parts several hundred miles across the U.S.-Mexican border and then 1,000 miles back to Michigan for final assembly. But in Mexico, a worker in GM's Delphi Automotive Systems parts-producing plant earns \$1.10 per hour, versus almost \$20 per hour for a unionized worker at a Delphi Automotive Systems parts plant in the United States. Plus, GM pays nothing for infrastructure—since there is none worth mentioning—and even gets the Mexican government to subsidize its electricity costs.

The conditions of the Mexican workers in the *maquiladoras* are intolerable. The Jan. 25 *Hoosier Herald-Times* of Indiana told the story of Teresa Silva, of Ciudad Juárez, which is located in the middle of the Chihuahua desert. Silva works for the Thomson Consumer Electronics TV *maquiladora*, but the conditions are similar to GM Delphi workers in Ciudad

FIGURE 1

A typical collapse function



Juárez, which has the largest number of GM Delphi parts plants—18 in the city proper, and 5 more close by. She earns 52¢ per hour, and lives with her two children in a “12-by-12 foot house.” The *Herald-Times* reported, “An unusual two-day rainstorm had battered the desert neighborhood and soaked the backyard lean-to that’s home to her mother, brother, and sister.” The lean-to is made of cardboard, nailed over a rough frame.

In Silva’s home, “a sagging bed takes up much of the single room.” Yet, despite the extreme heat during the day and cold in the evening, there is neither air conditioning nor heating. When it turns very cold, the “stove doubles as a heater.” Further, “water comes from a single spigot, outside on the bare-dirt lot.” The water does not meet U.S. health standards.

In many of the *colonias*, the poor neighborhoods, where many members of the *maquiladora* workers live, there is no central sewage system; raw sewage runs down the city streets. Hepatitis A and other diseases flourish.

Nazi economics

How could such a situation come about on the North American continent, in the last years of the twentieth century?

What is relentlessly pushing the globalization-outsourcing process forward, is the world financial speculative bubble. The two globalization processes—one involving production and the other financial speculation—are parts of one process. LaRouche’s “triple curve” function presents the relationship (Figure 1). The globalization of world financial markets has created a financial bubble that is growing at a hyperbolic rate, as represented by the uppermost of the three curves. Exemplary of this is the \$130 trillion world derivatives market.

The rate of return of the growing mass of financial claims in the upper curve, and the growth of the monetary aggregate (middle curve), sucks dry the lowest curve, representing physical production, forcing it downward. But, in periods in which the demands of the claims become immense, such as they are now, they can only be satisfied by vicious looting of the physical economy, as plant and equipment are sucked dry, and the workforce is cannibalized, through the process of fascist labor recycling pioneered in Nazi Germany in the 1930s. The last step of the Nazi policy was the labor camps, like Auschwitz: Workers were fed 400 to 600 calories per day, and when incapable of standing up, were gassed.

Today, under labor recycling, a worker earning \$20 per hour, for example, with full health and other benefits, is fired; he is then hired (sometimes at his old job) at \$10 per hour, with half-benefits. He is fired again, and hired again, at \$6 per hour, with almost no benefits.

While there have been precursors of this policy over the past 25 years, the world financial crisis has reached the point where there is an aggressive shift to implement this last phase. This process is now being carried out against the workforce globally.

Under such a policy, no nation benefits. There is no “lowest wage.” The wage level in Mexico, for example, can always be undercut in another country, where the workforce will be put to work for less.

By this levelling process, both industry and the cognitive powers of the labor force are wiped out. If not stopped, nations will cease to function or exist.

In this report, we look at the development of outsourcing in the auto industry through GM. We then look at its extension to other industries, and finally, we examine how this process will destroy America as an industrial republic.

GM’s maquiladora empire in Mexico

While GM is facing down the UAW at its Delphi Automotive Systems plant in Flint, it is busy building its Delphi empire in Mexico. Today, total employment in the Delphi division in Mexico, at 72,000 workers, is approaching the total employment at the Delphi division in the United States, at 90,000. Until 1978, GM did not have a single Delphi Automotive Systems plant in Mexico. If this trend continues, in a few years, GM’s Delphi Automotive System in Mexico will employ more workers than are employed at the Delphi division in the United States.

There are two ways that GM outsources: 1) for *parts*, where auto parts are not made by GM in-house, but are produced either by low-wage, non-GM factories in the United States, or in *maquiladoras* in Mexico; or 2) *entire car assembly*, where complete cars are made outside the United States,



LaRouche organizers at UAW picket lines in Flint, Michigan. General Motors has invested in a slave-labor system which is destroying both the United States and Mexico.

but shipped back for sale on the U.S. market.

In 1997, the Delphi Automotive Systems group had worldwide sales of \$28.4 billion. Were it a separate company, it would have ranked as one of the world's 500 largest. The principal divisions of Delphi and their function, are:

- Packard Electric: electric wiring harnesses
- Harrison Thermal Systems: heating, ventilating, air conditioning
- Delco Chassis
- Saginaw: steering systems
- Delphi Interior and Lighting Systems: lighting, airbags, etc.
- Delphi Energy and Engine Management: air/fuel management, ignition, etc.

GM Delphi's *maquiladoras* pay their workers, on average, \$8.75 per day—two and one-half times the Mexican minimum wage of \$3.50 per day. On the basis of an eight-hour workday, GM's Delphi *maquiladora* system is paying its workers \$1.10 per hour. The average hourly wage for a UAW-represented autoworker, working for GM in the United States, was \$19.27 per hour as of June 1996. So, on base pay alone, a Delphi worker working in a *maquiladora* earns one-eighteenth of what a Delphi worker earns in the United States. When health and retirement benefits are counted, a UAW worker's wage is brought up to more than \$35 per hour.

In its cost-accounting way, GM figured out how to chisel on the health costs of its Mexican workers. In Mexico, the government pays health coverage for all of its citizens. GM has to contribute to the government for this, but a fraction of what it would have to pay in the United States. Thus, while

the financiers and International Monetary Fund denounce Mexico for spending too much of its budget on social services, GM calculated that by locating in Mexico, it could pass on a large portion of its workers' health care cost to the Mexican government.

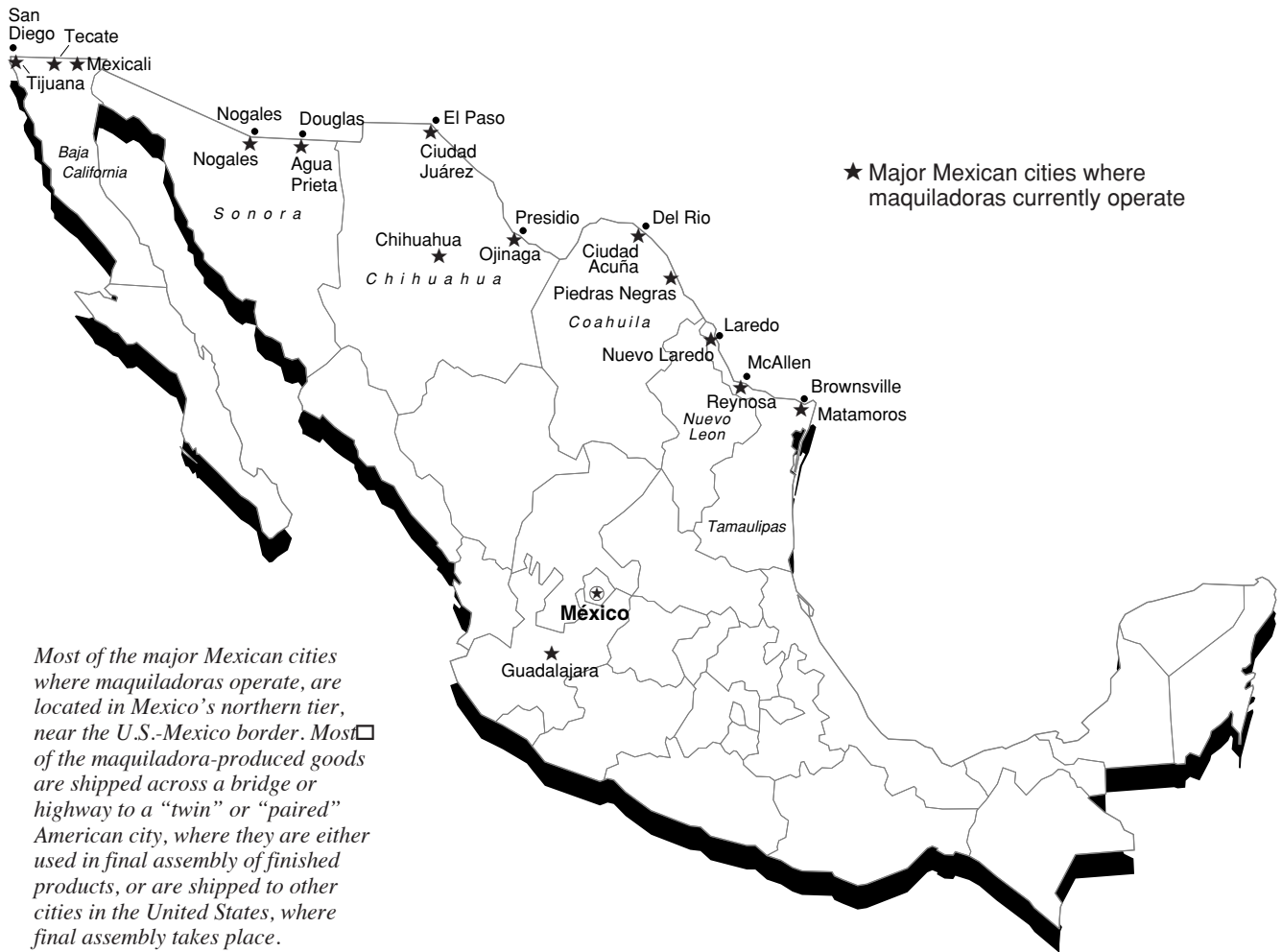
Of GM's 53 Delphi Automotive Systems *maquiladoras* in Mexico, 23 are in the state of Chihuahua, and 18 of these are in Chihuahua's largest city, Ciudad Juárez (home to the largest number of *maquiladoras* of any city in Mexico); 11 are in the state of Tamaulipas, most of which are in Tamaulipas's largest city, Matamoros (**Figure 2**). Ciudad Juárez is right across the border from El Paso, Texas; Matamoros is right across the border from Brownsville, Texas.

There are two notable characteristics of these two cities, especially Ciudad Juárez, which has a total of 307 establishments, with 201,000 workers: First, they are badly in need of infrastructure of all types, and especially water. As one *maquiladora* booster told *EIR*, these are manufacturing plants in the middle of the Chihuahua desert, where temperatures can reach 110°F. But the water infrastructure has not been built. Second, there is severe poverty and a scarcity of housing in these two cities. The unemployment keeps the plants supplied with labor. The scarcity of housing is such that in some parts of Ciudad Juárez, rents have been double those that prevail in El Paso, Texas, even though wages in El Paso are 15 times higher.

While GM has engaged in a limited housing program for public relations purposes, it has done little else. It has not raised wages, and it does not do much to build infrastructure—GM is most concerned that the bridges and highways

FIGURE 2

Mexico and its maquiladoras



between Ciudad Juárez and El Paso are kept functioning.

In sum, the GM *maquiladoras* in Ciudad Juárez and Matamoros are manufacturing plantations. They might as well be anywhere; they are not part of the Mexican economy, and do nothing to benefit the Mexican economy, as Carlos Cota Meza shows in the next article in this section. All that is needed are bridges, to keep the booty going back to the "mainland."

Entire-car assembly

As mentioned above, GM also engages in outsourcing the production-assembly of the entire car, so that it is produced in a foreign market, but sold, not in that foreign market, but in the United States.

GM employs 9,400 assembly workers in Mexico, in addition to the 72,000 working at its Delphi division.

According to *Automotive News's Market Data Book*, in 1997, automakers in Mexico—which are the major foreign

automakers, such as GM, Chrysler, Volkswagen, because Mexico does not produce its own car—produced 1.338 million cars in Mexico, but sold only 489,000 to Mexicans. According to an automotive economist, almost all of the remaining vehicles (849,000) were exported, primarily to the United States.

In addition to GM, other international automakers are stampeding to outsource parts/components or entire vehicle production to Mexico. Volkswagen has a 750-acre facility in Puebla, Mexico, 80 miles southeast of Mexico City, where it has brought two dozen parts suppliers to supply parts for production of Volkswagens in Mexico. Other automakers, such as Daimler-Chrysler (the merger of Chrysler and Daimler Benz), Ford, Nissan, Renault, and Fiat, have also rushed to Mexico.

The June 13 *Wall Street Journal*, in an article entitled "Mexico Is Becoming Auto-Making Hot Spot," reported that

“over the past four years, Mexico has attracted \$7.7 billion in new auto and auto-parts factories, with an additional \$8 billion projected through the end of the century.” That is, a total of \$15.7 billion.

In Brazil, a similar stampede is on: Between 1996 and 2000, foreign automakers intend to invest \$19.81 billion, led by GM (\$4.18 billion), Volkswagen (\$3.1 billion), and Ford (\$2.25 billion). At present, Brazilian automakers export only 8% of the 1.5 million cars that they produce each year. But, by 2000, Brazil will export 20% of car output.

This large-scale investment shows a long-term commitment outside the United States (and for the European carmakers, outside their country of origin).

Threat to U.S. jobs

On July 17, Don Nibbe, founder and publisher of *Twin Plant News*, threatened that if the UAW workers don’t buckle under to GM in their strike against the Delphi Automotive Systems division in Flint, GM will move even more of its operations to Mexico. *Twin Plant News* is published out of El Paso, and is the leading magazine in the world championing *maquiladoras* (“twin plant” is the other name used for a *maquiladora*).

Nibbe told *EIR*, “If the UAW doesn’t clean up its act real quick, more GM plants will move to Mexico. The UAW is going about it the wrong way. *It has to help GM to reduce costs. And if it doesn’t do this, GM will move to Mexico*” (emphasis added). Nibbe gloated, “Strikes are old-fashioned.”

What gives teeth to Nibbe’s threat, and gives urgency to the need to stop GM’s globalization, is that in the past, GM has done exactly what Nibbe threatens GM will do in the future.

Figure 3 shows GM’s employment of hourly workers in U.S. facilities for 1978-97. In this period, GM slashed its hourly labor force from 520,000 workers to 224,000, laying off nearly 300,000 workers. GM attributed the layoffs to increased efficiency. It is true that some of the layoffs were due to technological improvements, such as the use of robotics. But, many of the layoffs, throwing these workers onto the scrap-heap, was due to outsourcing to slave-labor work sites.

Of the 296,000 hourly workers in America which GM fired, 81,400 jobs, or 27.5%, are now in Mexico alone.

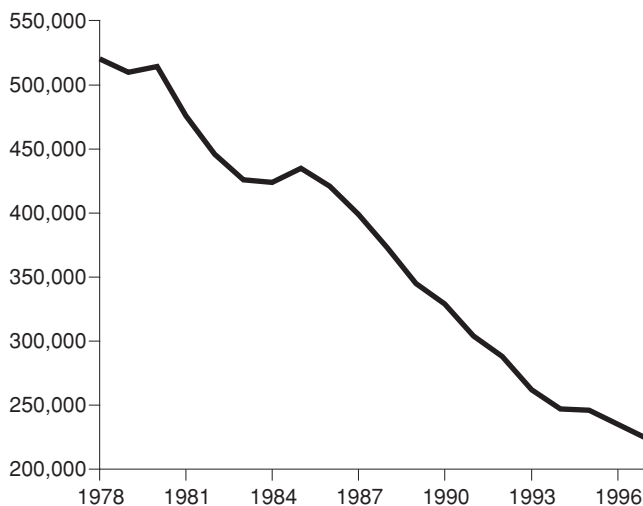
However, there are many tens of thousands of additional workers, paid below-subsistence wages, who have replaced the 296,000 workers that GM fired. GM has Delphi Automotive divisions around the world, from Brazil to Malaysia to South Korea. In 1997, South Korea’s Delphi division had almost \$1 billion worth of parts sales. Not counting the workers who produce for those countries’ internal auto markets, many thousands of workers in those countries likely are producing auto parts for assembly in GM cars in America.

In the United States, GM has also outsourced, contracting for parts from from outside suppliers. While some suppliers pay decent wages, many pay as little as \$7.50 per hour, with limited benefits. GM does not make such a figure available,

FIGURE 3

GM decimates its hourly workforce in America, 1978-97

(number of workers)



Source: General Motors.

but it could be many tens of thousands of workers.

This is where a large percentage of the 296,000 jobs that GM dumped from its payroll, ended up.

To those who say that outsourcing does not lose decent-paying jobs in America to overseas (or to low-wage zones in the United States), the facts show otherwise.

The maquiladora march through industry

Globalization has propelled the expansion of the *maquiladora* slave-labor model beyond the auto industry. Now, every industry in America is threatened, and Mexico is threatened with becoming one vast Auschwitz — with that condition soon to be extended back into a deindustrialized America.

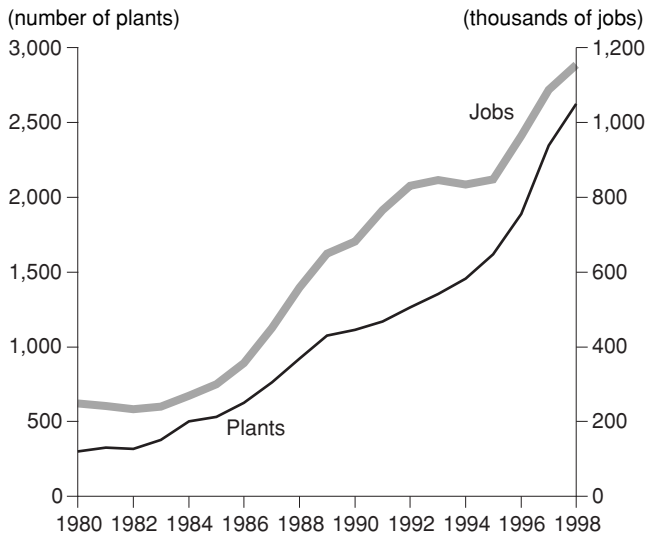
The *maquiladora*, as an in-bond, duty-free assembly plantation system in Mexico, was created in 1965. For the next 15 years, it grew at a moderate rate. **Figure 4** shows that in 1980, there were 620 *maquila* plants, employing 120,000 workers. The *maquiladoras* grew swiftly during 1985-89, when the annual compounded growth rate averaged more than 20% per year. By 1990, there were 1,703 *maquila* plants, employing 446,000 workers.

In 1994, two singular events occurred, which exploded the *maquiladora* system:

First, NAFTA was rammed through the U.S. Congress, even though, as *EIR* pointed out at the time, and the United Steel Workers point out in a current suit (see box), it wasn’t

FIGURE 4

Number of maquiladora plants and jobs in Mexico



Sources: BdM; INEGI.

legal. NAFTA was actually a treaty among three nations: the United States, Mexico, and Canada. Treaties require a two-thirds vote of the U.S. Congress, something the financier oligarchs pushing NAFTA could not muster. So, they used a ruse: They called NAFTA an “agreement,” and said that it only required a majority vote to pass. Even then, it barely squeaked through the House. It should be recalled that in the early 1990s, when NAFTA was set into motion, British oligarchy mouthpiece and former U.S. Secretary of State Henry Kissinger labelled it “the foreign policy priority of the U.S.” In almost identical language, the monetarist *Wall Street Journal* editorially called the proto-form of NAFTA, “the most important foreign policy priority.”

One of the most important features of NAFTA, which *EIR* highlighted at the time, was the Chapter XIII secret financial accords, which opened the path for British-run banks, including the Hong Kong and Shanghai Banking Corp., notorious for its role in drug trafficking, to subsequently buy up Mexican banks, which possessed 50% of the assets of the Mexican banking system.

While NAFTA did not make any fundamental changes regarding the *maquiladoras*, as one pro-NAFTA spokesman recently stated, “it made the *maquiladoras* secure, and signalled that they were here to stay.”

Second, in December 1994, speculators, reportedly including Britain’s Barings Bank, led an attack on the Mexican peso, forcing the peso’s devaluation by approximately 45% against the dollar; everything in Mexico became 45% cheaper.

(At the same time, the 1994-95 financial crisis in Mexico

TABLE 1

Mexico’s maquiladoras, by industrial activity, plants, and employment

Industrial activity	Number of plants	Employees
Electrical, electronic materials and accessories	459	240,343
Automotive equipment and accessories	205	199,406
Textiles, apparel	797	188,630
Electrical, electronic machinery	139	90,781
Wooden, metallic furniture and parts	337	45,635

Source: INEGI.

caused fundamental parameters of infrastructure and basic consumption to plummet, and real unemployment to rise to more than 40%, creating a workforce desperate for any kind of employment.)

At the end of 1994, there were 2,085 *maquilas* employing 583,000 workers. But, the imposition of NAFTA and the peso’s devaluation created a new dynamic that led to the explosive growth of the *maquiladora* system: Today the number of *maquilas* has shot up to 2,885, employing more than 1 million workers.

In addition to paying below subsistence wages, many of the *maquilas* lack the safety protection codes, or protections against hazardous materials, that exist in the United States. Of the *maquila* workers, 56% are women, often 16 to 19 years of age. The intensity of the work is so great, along with other adverse conditions, that at many *maquilas*, the annual turnover rate is 120%—i.e., an average worker lasts only nine months.

Table 1 shows the industrial sectors with the biggest number of *maquiladora* establishments and the largest employment. Automotive parts and final production, electronics parts and accessories, and textiles and apparel are the three largest employers, accounting for about two-thirds of *maquiladora* employment. Electronics parts and accessories employs 240,343 workers; automotive parts and equipment, 199,406; and textiles and apparel, 188,630.

- Textiles and apparel. The *maquiladora* textile and apparel explosion indicates that the slave-labor wages in Mexico are so low, that they undercut the sweat-shop apparel wages paid in America, and can compete with China. A May 7, 1997 *New York Times* article captures the development:

“Even after 15 years of work, Maria Consuelo Garcia made only slightly more than the \$4.75 minimum wage stitching together Polo, Fila and Sassoon jeans in the Sun Apparel, Inc. factory here. Seeing friends laid off at her plant and others, she kept her sewing machine whirring to beat her quotas.

“But that was not good enough. Company managers said their costs were still too high. Early last month, Ms. Garcia and 297 others were let go. Though Sun Apparel had no com-

ment, the Labor Department said that these workers, and 320 others last year, lost their jobs because the company is bringing in more goods from Mexico, where garment workers usually are paid less than \$1 an hour."

In fact, the Mexican garment worker's wage is between \$0.50 and \$0.80 an hour.

This year, for the first time, Mexico overtook China as the number-one supplier of clothing and textiles to the U.S. market. In the first three months of 1998 alone, Mexico sent \$1.6 billion in garments and textiles to the United States, up

GM claims, 'Market forces made me do it'

During the UAW strike, GM spokesmen have claimed that Chrysler outsources 70% of its car production, Ford outsources 50%, and GM outsources only 30%. GM has cited the allegedly higher level of its competitors' outsourcing, to argue that it has been "compelled by market forces" to increase its own outsourcing.

This is hokum. The alleged wide discrepancy of outsourcing between GM and its competitors does not exist.

Dan Luria, an economist with the Industrial Technology Institute of Ann Arbor, Michigan, has done research on outsourcing, looking at each phase of production for a standard car (by GM, Ford, and Chrysler), which would cost \$16,000 to produce and which would sell for about \$20,000. For each phase of auto production—stamping, powertrain, seat/trim/safety, fuel/delivery, suspension, etc.—he computed how much of that phase each company produced with "in-house" parts, and how much with parts "outsourced" from somewhere else. Then, based on weighting the value of each phase of production to the value of total production, he arrived at a composite figure of how much of the total car was produced with "in-house" and how much with "outsourced" parts.

Luria found that GM outsources 56.8% of its car's parts; Ford outsources 61.8%; and Chrysler outsources 66%. The difference between GM and Chrysler is only 9.2%, not the 40% difference between GM and Chrysler that GM is claiming.

When asked who originated the idea that GM outsources 30% of its car, Ford 50%, and Chrysler 70%, Luria stated that it was David E. Cole, the director of the Office for the Study of Automotive Transportation. When asked who Cole is, Luria said, "He's the son of the former president of General Motors."

—Richard Freeman

33% from 1997. Aiding this process was NAFTA's elimination of import quotas on garments made anywhere in North America. Overall, Mexico's sweat-shop exports of garments and textiles to all nations could reach \$9.5 billion this year.

- Electronics. The surge in electronics has made Tijuana the largest producer of TV sets in the world, producing 14 million units a year, according to *BusinessWeek*. Japanese giants Sony, Sanyo Electric, and Hitachi have hundreds of millions of dollars of investments in Mexico. But, the wages are so low in Mexico, that both Taiwan and South Korea have made substantial investments in Mexico, finding Mexican wages notably below the ones that they pay in their own country.

Given the way that NAFTA and globalization are reshaping the North American continent, there is little that will not soon come under the wrecker ball of globalization. *Twin Plant News* publisher Nibbe named three industries whose production by *maquiladoras* in Mexico is newer, but ready to take off:

- Furniture. "The furniture industry is going to Mexico because of high labor costs," Nibbe said. "This is the assembly of high-end real wood."

- Aircraft parts production. Nibbe reported that Boeing Co., the world's largest aircraft producer, "has parts suppliers making instrumentation panels, and electrical harnesses in Tijuana and Mexicali [both in the state of Baja California Norte, just across from San Diego]. The F-15 [fighter plane] has subcontractors making parts for it in Mexico." When asked why this is not generally known, he said, "Maybe they don't want it widely known."

- Health care. Nibbe indicated that in the not-too-distant future, as a cost-saving measure, American insurance companies and health maintenance organizations (HMOs) may assign American patients to Mexico for treatment. "If you live in this area [El Paso], and your kid needs braces, you send him to Mexico," Nibbe said. "People do that all the time. If you need dentures, you can get them in Mexico at one-third the cost. Now, you go to a doctor's office, and you say, how much do you want for a visit? \$15? Okay, do you want to be paid in pesos or dollars?" People come all the way from Canada to save money.

"It's not happening yet," Nibbe said, "but I can see the U.S. sending its patients to Mexico. I can see it coming. American insurance companies, like Prudential and Aetna, are buying Mexican insurance companies." He added, "It's cheaper to run a medical facility in Mexico."

Can anyone survive globalization?

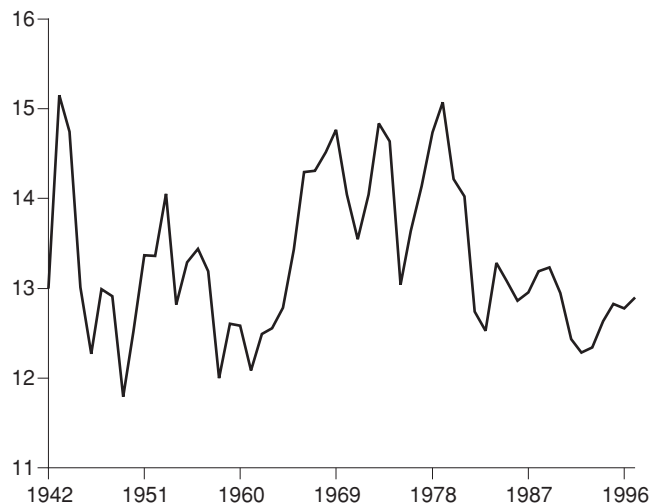
The globalization process is in the forefront in the UAW strike against GM, even though the strike was technically called on local grievances. The issue is: Can the oligarchy's globalization program be stopped?

America faces an assault against the very concept that it

FIGURE 5

Number of production workers in U.S. manufacturing, 1942-97

(millions)



Source: Bureau of Labor Statistics, Department of Labor.

is a sovereign, industrially based republic. What good is the republic, or what does the republic mean, if the industrial part is gone?

Whether one is a worker or a businessman, the issue is, if the British oligarchy's policy of globalization can strip down the auto industry — America's largest, which consumes 27% of its aluminum, 80% of its lead, 12% of its copper, 23% of its zinc, 56% of its synthetic rubber, and 15% of its steel — there is no industry that is safe from this assault.

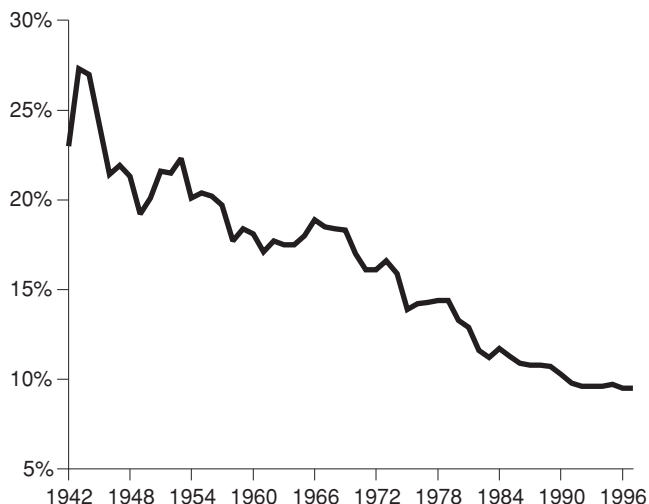
GM says it must outsource in order to compete. Each of the 15 largest auto companies in the world slashes its workforce — using a considerable quantity of cheap-labor outsourcing — and points to the “other auto companies,” which have slashed even more, saying that it must institute still further cuts in order “to stay competitive.”

Such a cost-cutting approach is not sane. If a society destroys the living standard of the productive labor force, it destroys that which is needed for the physical and cultural reproduction of its existence.

Figure 5 shows the number of American production workers in manufacturing. (The Bureau of Labor Statistics normally includes all workers, including white collar workers, but Figure 5 shows only blue-collar workers.) In 1943, during the World War II mobilization, America had 15.15 million blue-collar manufacturing workers, the highest level of this century. This level was approached as a result of the spin-off effects of the Kennedy administration's development of the Apollo space program as a science driver. There was also an upsurge in the latter part of the 1970s — ironically,

FIGURE 6

Production manufacturing workers as percentage of total U.S. labor force, 1942-97



Source: Bureau of Labor Statistics, Department of Labor.

largely as a result of retooling for the auto industry. Since the late 1970s, America's production manufacturing workers, the workers who do the physical alteration of nature in manufacturing, has declined by 2 million, falling to below 13 million.

The precarious state that this puts America in can be seen in **Figure 6**, showing production manufacturing workers as a percentage of the total labor force. In 1943 and 1944, production manufacturing workers were 27% of the workforce. This level stayed above 20%, until the Eisenhower 1957-58 recession, which pushed it below that level. With the exception of the effects of the Kennedy space program, it has steadily fallen ever since, to 9.5% today.

If, in the next two years, the *maquiladora* system slashes another 2-3 million from America's already reduced production manufacturing workers, there will be an insufficient labor force and insufficient industrial capacity left to produce what the nation needs to survive.

Paralleling the take-down of the physical size of the labor force, is the take-down of its already-falling living standards. The world financial breakdown, which is demanding ever more loot to keep the speculative financial bubble aloft, is driving forward the Nazi labor recycling policies. There is no bottom to the recycling: For any nation that becomes a cheap-labor hell-hole, there is always another nation that can use cheaper labor to undersell it. Once, the fascist labor recycling policy, driven by the financiers' demands, gains momentum on a global scale, it is very difficult to stop. These policies threaten to turn Ibero-America, Asia, and Africa into one large Auschwitz. The United States is not immune to it, but is rather the target of this Auschwitz labor policy.

United Steelworkers file lawsuit against NAFTA

On July 13, the United Steelworkers of America (USWA) joined the Made in USA Foundation in a Federal lawsuit challenging the constitutionality of the North American Free Trade Agreement (NAFTA). The following are excerpts from the union's press release:

"We believe that NAFTA is a treaty that should have been subject to a two-thirds ratification vote by the U.S. Senate as called for in the U.S. Constitution," said USWA President George Becker.

The Steelworkers president declared, "We are taking this legal action today because NAFTA has been an unmitigated disaster, not just for our members, but for working people throughout North America."

The lawsuit was filed today in the U.S. District Court in the Northern District of Alabama. It will ask the courts to decide if NAFTA is a treaty and, if the answer is yes, declare the agreement null and void because it was not approved by the constitutionally required two-thirds vote in the U.S. Senate.

The Senate vote on NAFTA's adoption, held Nov. 17, 1993, was 61-38. Three days later, the House of Representatives voted 234-200 for adoption.

"Had NAFTA been considered by our founding fathers, there is no doubt in my mind that they would have considered it a treaty," said Becker. "It would be difficult to imagine how any international economic agreement could be a treaty in the Constitutional sense, if NAFTA were not one. It binds the three signatories into the economic equivalent of a military alliance."

Joining in the lawsuit is the Made in the USA Foundation, led by Joel D. Joseph, who said: "The main issue to be decided concerning NAFTA and other trade agreements is whether the world will raise its standards to our level, or the United States will be forced to lower ours." . . .

The USWA filed the lawsuit because of the huge loss in jobs caused by NAFTA, estimated at around half a million in the United States. USWA Local 12L, representing workers at the Goodyear Tire and Rubber Co. in East Gadsden, Ala., whose jobs have also been impacted since NAFTA's implementation, is also a plaintiff in the lawsuit. Jobs have also been lost at other USWA-represented Goodyear plants in Ohio, Kansas, and Nebraska.

More than 7,400 workers represented by the USWA at 34 locations have been certified by the U.S. Department of Labor as having lost employment because of the movement of their

employers to Mexico and Canada, or because of an increase in imports from these countries. Since NAFTA's adoption in 1993, more than 187,000 U.S. workers have been certified by the Labor Department for adjustment assistance because their jobs have been displaced by NAFTA.

Becker made clear that the lawsuit is not aimed at Canada, Mexico, or its workers. "We will not stand for a race to the bottom of the economic ladder, where corporations compete for the cheapest labor and the lowest environmental and safety standards," he said.

"Instead, we want a trading system that recognizes workers as central to the economy, and allows people to earn enough to buy the goods they produce. We need to wipe NAFTA off the books and fashion a hemispheric economic treaty that will serve the interests not just of Wall Street and the bond market but of workers, their families, and communities in the United States, Canada, and Mexico.

"NAFTA has never lived up to the promises made by its supporters," Becker added. "And the sad fact is that workers in all three countries are the losers." . . .

Last year, Becker traveled to Mexico and met with Mexico's President Ernesto Zedillo, and Mexican trade union leaders to discuss the impact of NAFTA. During his visit, Becker said he was impressed by the desire of Mexican workers and their union leaders for economic and political progress. After NAFTA was implemented, wages for Mexican workers fell 27% between 1993 and 1996. According to a 1995 survey of Mexico's 33 million workers, 19% worked for less than the minimum wage, 66% lacked any benefits, and 30% worked fewer than 35 hours per week. To make ends meet, millions of Mexican families are forced to send their children to work.

"During my visit, I heard Mexican workers tell me stories of the stiff government and corporate opposition they face when they try to exercise their rights under Mexican law to form independent unions," Becker said. "It's clear to them—and to me—that the mechanisms set up under NAFTA to prevent labor abuse simply don't work."

Becker said NAFTA also has had an insidious impact on workers in the United States. Many U.S. firms, he said, have used the threat of moving to Mexico as a weapon against wage increases and union organization. In a survey commissioned by NAFTA's own Labor Secretariat, Professor Kate Bronfenbrenner of Cornell University found that over half of U.S. firms have used threats to shut down operations to fight union organizing drives. . . .

The USWA legal team . . . will argue that NAFTA is a treaty under the U.S. Constitution, whose framers understood that the word "treaty" is not confined to agreements relating to war, peace, and the military, but also includes "treaties of commerce." That precise phrase, in fact, appears in the Articles of Confederation that preceded the Constitution. And the Constitution itself provides a specific procedure for the making of treaties, requiring that "two-thirds of the Senate present [must] concur." . . .

'Maquiladoras': 'manufacturing plantations'

by Carlos Cota Meza

The *maquiladora* system of production in Mexico is the most exemplary aspect of the supposed economic benefits of the exploitation of the cheap labor of underdeveloped countries that accept globalization and its free-trade pacts. And, to the extent that the destructive effects of globalization are seizing hold of national physical economies, it is becoming increasingly apparent that *maquiladora* exploitation of cheap labor and cheap energy, with its primitive accumulation off no investment in infrastructure, is nothing but nineteenth-century British colonial-style looting imposed through twentieth-century "manufacturing plantations."

By official definition, *maquiladoras* are establishments in which part of the production process (usually assembly) of a product is carried out in national territory, on contract with a mother company located abroad. To carry out the specified industrial or service process to complete or repair the foreign-origin merchandise, the parts, pieces, and components that will later be exported, are imported under the special category of "temporary imports." This means that the *maquiladoras* cannot be considered part of the national economy in which they operate; rather, they are a foreign enclave within national territory.

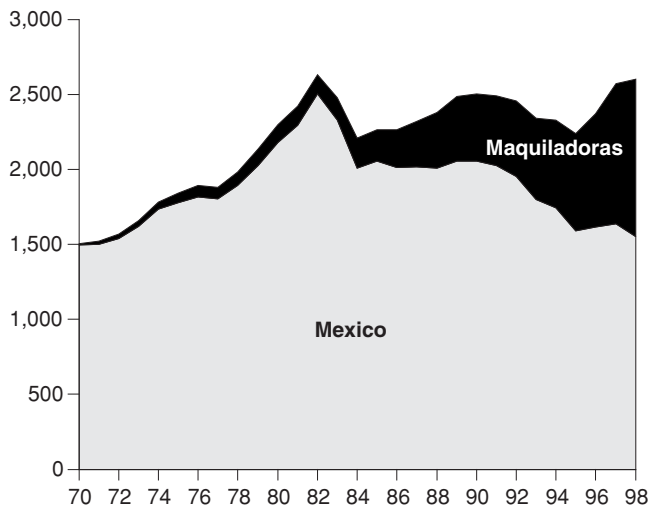
"Temporary imports" are given permits to be kept inside the country, for a maximum of one year. In the case of machinery, equipment, and tools, these can stay in the country as long as the *maquiladora* program in question lasts.

The origin of this program in Mexico is known as the Program for Industrialization of the Northern Border, under which the establishment of partial production processes for U.S. mother companies was allowed. In the United States, the mother companies were granted a series of tax exemptions which, in a normal economy, would be categorized as "tax evasion." Not surprisingly, the *maquiladora* boom in Mexico began during "Reaganomics," the which reached its zenith in George Bush's and Carlos Salinas de Gortari's North American Free Trade Agreement (NAFTA).

Mexicans identify the *maquiladora* "boom" as the process of deindustrialization which the country has suffered since the so-called "debt crisis" at the end of José López Portillo's government in 1982.

The conditionalities that the International Monetary Fund (IMF) imposed on Mexico, drastically restricted internal production and consumption, and forced the nation to dedicate

FIGURE 1
Real employment in manufacturing
(thousands)



itself to exporting to obtain foreign exchange for paying the foreign debt. Thus it was, that national production in general, and production of manufactured goods in particular, suffered a drastic contraction, with consequent rise in unemployment.

The IMF's legacy

Figure 1¹ shows the reduction of manufacturing jobs in the Mexican economy, from 2,293,000 at its peak, to 1,367,087. A loss of 925,913 jobs in the industrial sector.

The stages of destruction of Mexico's industrial sector and the installation of a "manufacturing plantation" are clearly discernible. In 1984, after the "contingency programs" of the debt payment schemes proposed by the Miguel de la Madrid government, the loss of jobs in the manufacturing sector "stabilized," arriving at 1988 with a loss of 12%.

During 1988-96, the manufacturing sector suffered another, still more drastic loss of 19%, the result of the imposition of free imports that were made official under NAFTA. After the 1994-95 crisis, at the start of the current Zedillo government, following other "contingency programs" (the IMF bailout package) for payment of the foreign debt, loss of manufacturing jobs once again "stabilized," at approximately 700,000.

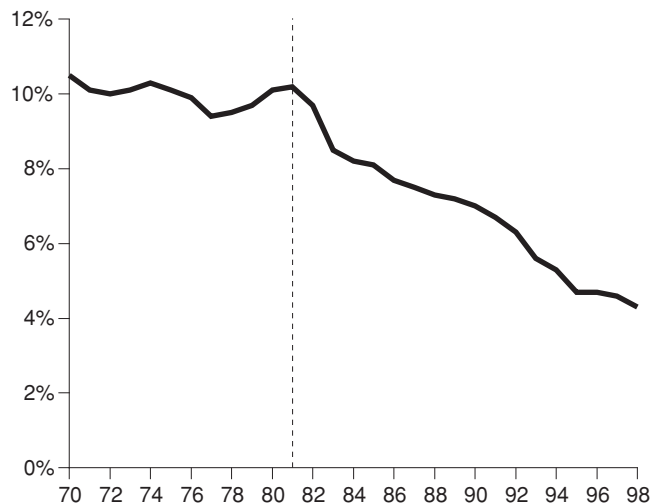
But, 1998 began with the crisis in international oil prices, which has forced the Mexican government to slash its budget

1. In preparing the figures and table used in this section, we used the same methodology employed in our study, "The Debt Bomb Is Going to Explode in Mexico—Again," *EIR*, Feb. 28, 1997. Our employment statistics are not the same as Mexico's official statistics, the which are inaccurate for the reasons we detail in that study.

FIGURE 2

Employment in Mexican manufacturing

(percent of total labor force)



three times in six months. On top of other measures, such as the rise in interest rates, another period of economic contraction began, during which loss of manufacturing jobs reached 925,913.

Over the same time, the number of Mexicans employed in the “manufacturing plantation” (*maquiladoras*) has risen from 131,000 in 1981, to 1,050,000 in June 1998.

Although the collapse in the absolute number of those employed in manufacturing is dramatic, the reality is actually much worse. That reality is more closely reflected when we look at real employment as a percentage of the labor force (Figure 2), where the dizzying decline of the Mexican industrial sector from 1981 to the present is seen.

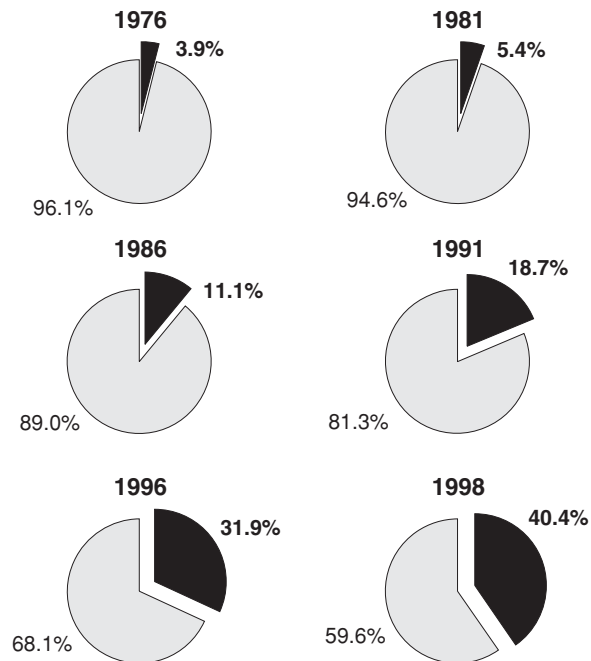
Figure 3 shows the constant growth of personnel employed in *maquiladoras* since 1981, as counterposed to the also constant decline of manufacturing workers in the Mexican economy. Since 1996, the *maquiladora* sector shows an average annual growth rate of approximately 18%, which projection continues this year. If this rate of destruction of the Mexican economy continues, there will be more workers in *maquiladoras* by the end of the century, than in Mexico’s manufacturing industry.

According to the monthly census of the National Institute for Statistics, Geography and Information (Inegi) on the Maquiladora Export Industry, in February 1998, there were some 2,885 *maquiladora* establishments in Mexico, with a labor force of 979,390 (including male and female workers, production technicians, and administrative employees). In general, there are 12 kinds of *maquiladora* assembly for export, as opposed to more than 130 national industrial processes (Table 1).

FIGURE 3

Employment in maquiladoras

(percent of total employment in manufacturing)



The question arises: What is the nature of *maquiladora* exploitation, that Mexico, with a mere 1% of its total population, has managed to dramatically transform the powerful industrial sector of the United States?

Some 80% of the *maquiladoras* are concentrated in the states bordering the United States (Baja California, Chihuahua, Coahuila, Sonora, and Tamaulipas), where, in turn, 80% of the *maquiladora* labor force works.

It is universally known that every Mexican who hires out to a *maquiladora* (and the number of women in *maquiladora* production is higher than that for men), does so out of desperation, to feed his or her family. Working conditions in the *maquiladoras* are deplorable, and living conditions for the *maquiladora* worker and his or her family, are of the most extreme poverty.

Physical limits to cannibalization

Maquiladora exploitation is nonetheless reaching its physical limits in the border states, because its rates of profit depend on looting both labor and already existing infrastructure.

In the state of Sonora, there is simply no water. The capital city of Hermosillo, which was decreed the “*maquiladora* capital,” is currently suffering water rationing. To continue the *maquiladora* project, there is talk that an aqueduct of some 150 kilometers must be built to carry water from the El No-

TABLE 1

The primary types of maquiladora assembly for export

Process	Number of plants or firms	Number of employees
Selecting, preparing, packaging, and tinning food	79	12,411
Assembling clothing, textiles, and other materials	797	188,630
Shoe production and leather industry	59	8,739
Assembly of furniture, accessories, and other wood and metal products	337	45,635
Chemical products	121	18,441
Construction, reconstruction, and assembly of transportation equipment and accessories	205	199,406
Assembly and repair of tools, equipment, and non-electric parts	43	10,015
Assembly of machinery and electric and electronic articles	139	90,781
Electric and electronic materials and accessories	459	240,343
Assembly of toys and sports equipment	57	13,762
Other manufacturing industries	431	109,661
Services	158	37,566

Source: Inegi. The Maquiladora Export Industry, through February 1992.

villos dam. Such a project, however, would take away water needed for irrigating 60,000 hectares in the fertile Yaqui Valley.

Tamaulipas also has no water, and is currently in a brawl with the neighboring state of Nuevo Leon, which has its own incipient *maquiladora* plantation, for use of the El Cuchillo dam, vital for supplying water to the capital cities of both states.

Chihuahua and Baja California, the two leading states in *maquiladora* production, have already reached the limits of urban "lumpen" concentration, where the characteristic "social life" of *maquiladora* employees has become prostitution, crime, and drug trafficking. Both states are competing for the highest crime rate in the country.

The abundance of labor available for the *maquiladoras* is the direct result of the systematic looting to which the Mexican economy has been subjected since 1982, by IMF "conditionalities" designed for paying the foreign debt.

Thus, it is this fascist looting of the national productive plant that has led to the cannibalization of the Mexican labor force. If this free-trade orgy is not stopped, it can only lead to further exploitation under police-state methods comparable to the Nazi concentration camps. In some *maquiladoras*, these conditions already exist.

Mexico's Mr. NAFTA and the drug trade

by Gretchen Small

Before there was Colombia's narco-President Ernesto Samper Pizano, there was Carlos Salinas de Gotari in Mexico. A trinational taskforce from the United States, Switzerland, and Mexico has been assembling court-quality evidence that the cocaine cartels bought up Salinas *before* he assumed the Presidency in December 1988. The \$6 million which the cartel paid to secure Samper's election as President of Colombia, looks like chicken-feed, compared to the \$80 million the cartels are said to have paid Salinas, his family, and his retinue, during Salinas's six years in office.

It is not surprising that Salinas was owned by the drug cartels; after all, he negotiated NAFTA, which sold his countrymen into slavery, with George Bush. As *EIR* documented in its September 1996 *Special Report*, "Would a President Bob Dole Prosecute Drug Super-Kingpin George Bush?," Bush oversaw the operation which created the crack cocaine epidemic in the United States.

NAFTA was in every way a Bush-Salinas baby. The two Presidents personally oversaw its drafting during their Presidencies, and, despite enormous opposition in both countries, initialled a final text of the treaty on April 12, 1992. When it became clear that Bush might not be reelected, Salinas announced that his government would accept no changes in the treaty as it had been negotiated with Bush, by the next U.S. administration.

The dope cartels, busy buying up or creating dozens of cross-border transport companies to go into action once NAFTA went through, moved for institutional control over Mexico under Salinas. President Ernesto Zedillo found, when he took office on Dec. 1, 1994, that Mexico, under Salinas, had become the primary transshipment point for cocaine to the United States; cultivation of opium and its processing into heroin had zoomed; the police forces were corrupted almost beyond repair; and the banking system, privatized under Salinas, had become a major money-laundering center for the dope trade.

EIR detailed this Salinas drug story in its *Special Report*. At that time, law enforcement authorities in the United States, Switzerland, and Mexico were already on the trail of the Salinas team, a case centered around Raúl Salinas, Carlos's brother and close confidant. Raúl had been arrested in Mexico in February 1995 on charges that he was the intellectual author

of the Sept. 24, 1994 murder of José Francisco Ruiz Massieu, secretary general of the ruling PRI party. In November 1995, international investigations into his money-laundering became public, when Swiss authorities seized \$130 million in his Swiss bank accounts.

Closing in

The taskforce now appears to be closing in. On April 24, 1998, the Swiss Supreme Court ruled that the dossiers assembled by Swiss prosecutors on Raúl Salinas's Swiss bank accounts could be released to the U.S. government, because sufficient evidence had been presented to the court, including on drug-trafficking, bribery, and money-laundering, that Raúl's money was dirty.

At least three narcos jailed in the United States, including the Cali Cartel's former accountant, Guillermo Pallomari, testified to Swiss prosecutors, in the presence of U.S. officials, that the drug cartels made payments totalling some \$80 million to Raúl and company, in return for protection for their operations in Mexico, the *Miami Herald* reported on July 14. According to transcripts made available to the *Miami Herald*, Colombian trafficker José Manuel Ramos testified that when he negotiated the protection deal with Raúl in 1987, Raúl told him that his brother Carlos needed the money for his Presidential campaign. (The deal included a \$300,000 payment to Raúl for every drug plane which landed safely in Mexico.)

In June, the Zedillo government allowed a former Salinas official, now in prison in Mexico, Adrián Carrera, to testify before a U.S. grand jury in Houston, as to how he had

channeled \$2 million in payoffs from the cartels to Mario Ruiz Massieu, the Assistant Attorney General under Salinas, and others. Ruiz Massieu, brother of the murdered PRI secretary general, is believed to be in so deep with the drug trade, that he covered up for the role of Raúl in his own brother's murder.

Arrested in March 1998, Carrera pled guilty to using his posts in the Salinas administration, including warden of Mexico City's prison and commander of the Federal Judicial Police, to protect the drug trade.

As police commander, Carrera worked closely with Carlos Salinas's personal secretary, Justo Ceja. Carrera and Ceja, for example, were responsible for appointing 70% of the state police chiefs. Just who they appointed came to light in August 1996, when President Zedillo ordered a purge of state police forces. Twenty-two of the 32 state commanders, largely appointees of the Salinas duo, were arrested and charged with working for the cartels.

Ceja has roamed free, but on July 16, Mexican papers reported that the Attorney General's office has requested an arrest warrant be issued for Ceja, on charges of illicit enrichment. Prosecutors discovered that Ceja had stashed away nearly \$3 million in bank accounts, a sum inexplicable given his government salary.

The same day, *El Universal* published a picture of Ceja, in which Ceja is sitting around drinking with a group of men, including Francisco Arellano Félix, one of the leading members of the Tijuana Cartel. And, also on July 16, Mexican authorities arrested Juan Manuel Gómez Gutiérrez, the former personal accountant to Raúl Salinas.

Maquiladoras are a cancer

Excerpt from an EIR study, "The Debt Bomb Is Going to Explode In Mexico—Again," Feb. 28, 1997.

The International Monetary Fund forced Mexico to stop producing for domestic consumption, and to export like mad in order to earn foreign exchange with which to pay the foreign debt. Thus, production of market-basket items for the domestic economy shrivelled, and national employment fell with it, while the *maquiladora* sector geared up significant manufacturing production—all of it for export. Thus, while Mexico proper was losing 700,000 manufacturing jobs after 1981, employment in the *maquiladora* assembly plants grew from only 131,000 to 707,000 in 1996 [to 1,050,000 in June 1998].

It would be a mistake to consider the *maquiladoras* part of the Mexican economy, however. They may be located on Mexican soil; they may employ Mexican workers,

but they are in fact foreign enclaves on Mexican territory, which assemble goods out of imported parts and export largely semi-finished and finished products, mainly to the United States. Even the miserable slave wages that the workers are paid scarcely have an impact on Mexico: It is well documented that a large share is used by the workers for purchases across the border in the United States.

The only thing the *maquiladoras* leave Mexico, is a monstrous social and political bill for the "privilege" of providing slave labor to facilitate debt repayment. Gigantic urban ghettos of *maquila* workers and their families have spread along the border, with little or no infrastructure available. The squalor and health hazards are matched only by the slave labor working conditions that the assembly workers (in their majority, young women and girls) are forced to endure.

In short, the *maquiladoras* are far worse than a foreign enclave on Mexican soil. By all rights, they must be considered an economic *cancer*, which has grown prodigiously on the body of the Mexican economy.

NAFTA ban on DDT will cost more lives

by Marjorie Mazel Hecht

A “side agreement” to the NAFTA accord, known as the North America Agreement for Environmental Cooperation, mandates the phase-out of the pesticide DDT in Mexico by the year 2007. The same NAFTA “side agreement” created the Commission for Environmental Cooperation (CEC), based in Montreal, to deal with DDT and other environmental issues. The CEC is composed of the Canadian, Mexican, and U.S. environment ministers and a public advisory committee (that is, environmentalist leaders) with five members from each country.

Although the NAFTA ban on DDT (and other pesticides) was put forward by the CEC as a “response to growing local and international concern over the detrimental impact of these toxic substances on human health and the environment,” the truth is that the scare stories about DDT do not have any scientific validity.* Any agreement to phase out DDT, is a deadly capitulation to the Malthusian environmentalist faction.

Since its discovery in 1942, DDT has saved more lives than any other man-made chemical, without any toxic effects on man. When DDT was banned in the United States in 1972, for admittedly political reasons, and was then removed from use in most tropical countries, the incidence of malaria and deaths from malaria skyrocketed. Now, in Africa, for example, an estimated 1 to 2 million children die every year from malaria—a preventable and curable disease. Hundreds of millions more children and adults are weakened by the disease.

Mexico and a few other nations where malaria is endemic have continued to produce and use DDT for malaria control in public health programs, because it is the most effective and inexpensive way to control disease-carrying mosquitoes. (Replacement pesticides are 14 to 19 times more expensive, have to be applied more frequently, and are more toxic.) Studies have shown that a small amount of DDT, sprayed on house walls twice a year, at a cost of \$1.44, can effectively control malaria, even when the mosquitoes are resistant, because of the excito-repellant effect: The mosquitoes are repelled by the DDT sprayed on house walls, and do not stay around to bite the residents.

* For background information on DDT, see Dr. J. Gordon Edwards, “The Ugly Truth about Rachel Carson,” *21st Century Science & Technology*, Summer 1992, and “Malaria: The Killer That Could Have Been Conquered,” *21st Century Science & Technology*, Summer 1993.

The current Mexican malaria control program, known as PAIS, tracks the origin of malaria cases, then sprays the inside of every house in the origin village with DDT to stop transmission, drains swamps and uses other pesticides in mosquito-breeding areas, and follows through with treatment for the individuals with malaria. According to the Pan American Health Organization (PAHO), the PAIS program treated 17,213 localities with malaria cases in 1988, but by 1997, only 2,449 localities required treatment because of PAIS’s success.

The response of malaria to economic and social collapse is direct: The Mexican Ministry of Health noted in an appendix to one NAFTA document, “In the early 1980s, the economic crisis and reductions in program activities caused a significant deterioration in public health, leading to the temporary increase of malaria transmission,” with 133,700 cases reported in 14,000 localities.

Dr. Renato Gusmão, the Regional Adviser on Malaria for PAHO, told this writer that Mexico agreed to “phase out DDT,” reducing its use by 15% each year until 2007, contingent on continuing financial support for the PAIS program, and on the new development of suitable substitutes for spraying to control mosquitoes inside houses. He fears, however, that the final NAFTA document on DDT does not include Mexico’s caveats.

The repercussions of the ban will also hit the other nations of Ibero-America, because Mexico now supplies DDT for their anti-malaria programs. In some cases, poor nations like Belize, which have no cash, repay Mexico with produce.

DDT mythology

DDT is the “mother” of environmental hoaxes. It was banned in the United States in 1972, when environmentalist groups such as the Environmental Defense Fund and the Natural Resources Defense Council, mounted a huge media propaganda campaign against DDT. The U.S. Environmental Protection Agency convened scientific hearings that went for seven months and generated 9,000 pages of testimony. The EPA hearing officer, Edmund Sweeney, then ruled that DDT should *not* be banned, based on the scientific evidence: “DDT is not carcinogenic, mutagenic, or teratogenic to man [and] these uses of DDT do not have a deleterious effect on fish, birds, wildlife, or estuarine organisms.”

But two months later, without even reading the testimony, EPA administrator William Ruckelshaus banned DDT. He admitted that he made the decision for political reasons; from that time, public perception, not science, became the dominant factor in environmental policy. Why? Alexander King, founder of the Malthusian Club of Rome, wrote in a biographical essay in 1990: “My chief quarrel with DDT in hindsight is that it has greatly added to the population problem.” King was particularly concerned that DDT had dramatically cut the incidence of malaria and the death rate in the developing sector.

Privatizing the prison system: 'maquiladoras' in the United States

by Marianna Wertz

America's rapidly growing prison system is now threatening to become a full-fledged domestic *maquiladora* zone—a cheap-labor haven for American free-enterprisers, who won't have to go across the border or overseas to find a ready pool of labor, cheaper even than Mexico's slave-labor plantations. U.S. Rep. Bill McCollum (R-Fla.), who got his job as a result of the FBI's ABSCAM sting operation against incumbent Rep. Richard Kelly in 1980, has introduced "The Free Market Prison Industries Reform Act of 1998," H.R. 4100, which is designed to throw open the Federal and state prison work programs in the United States to private control and profit-making.

McCollum's bill will eliminate every protection of existing American law that prevents prison labor from being used to drive down wages and working conditions for this nation's free labor force. It means that the 1.8 million Americans in Federal and state prisons—the result of the highest rate of incarceration in the world outside of Russia—will become the domestic equivalent of the Mexican *maquiladora* workers, working for pennies an hour. They will produce goods of every variety in open competition with the free labor force, saving their employers not only wages, as well as workmen's compensation, unemployment compensation, and unions to deal with—as *maquiladora* labor does—but also saving the cost of setting up shops south of the border or in Asia.

This is the ultimate in human "labor recycling," as Lyndon LaRouche called it over two decades ago, when he warned of the coming financial crisis and its expected effects on the labor force, especially, then, in the use of welfare recipients in workfare programs.

Indeed, when McCollum introduced H.R. 4100 on June 19, he called on American business to stop sending jobs overseas and put them instead into American prisons, where the labor is cheap, young, and plentiful. And, it is already happening.

In 1997, a U.S. company operating in Mexico's *maquiladora* zone shut down its data-processing shop and moved it to the San Quentin State Prison in California. While the

United Auto Workers (UAW) union has been rightly protesting the loss of thousands of jobs to the *maquiladoras*, in 1992, the Weastec Corp. in Ohio hired prison inmates to assemble parts for cars made at the non-union Honda plant in Marysville, Ohio. The company paid the state \$1.05 an hour for inmate labor. From that, the prisoners got 35¢ an hour—less than *maquiladora* workers, who average about 90¢ an hour! In this case, the UAW caught on to the scheme and created enough public pressure to shut it down. But, if McCollum's bill goes through, that kind of scheme will spread like wildfire.

A return to slavery

Lyndon LaRouche has denounced both the growing use of prison labor for profit-making and the rapid spread of privately run prisons—many of which also employ their inmates for profit—as a gross violation of human rights. Politicians such as Rep. Frank Wolf (R-Va.) and Rep. Chris Smith (R-N.J.) score political points by denouncing the Chinese use of prison labor for making goods which are then sold in the United States. But, what about the goods that U.S. prisoners make, at near-nothing wages? LaRouche asks. If it's not good for China to be doing this, what about America, the so-called "bastion" of human rights?

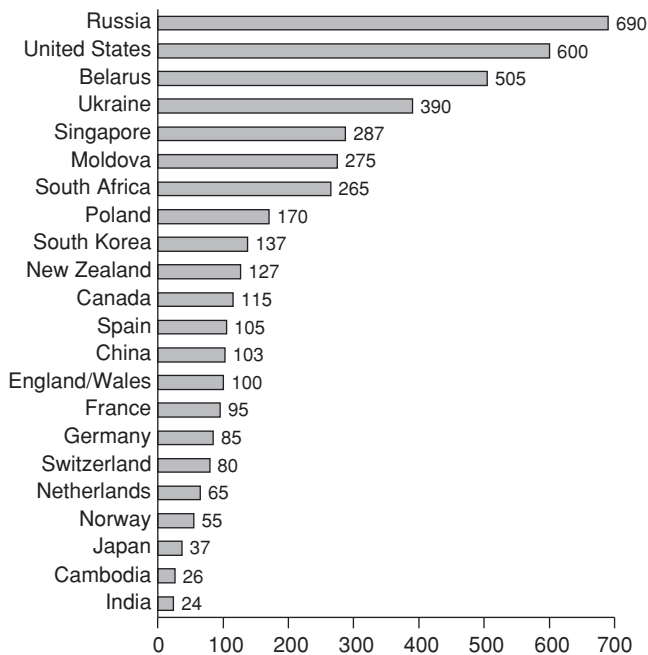
In America, the privatization of prison labor and prison management is in fact a return to the saddest period of human rights violations in our nation's history, to which President Clinton himself pointed, during his recent trip to China, when students at Peking University asked him about America's human rights record. It is a return to slavery.

LaRouche, in 1994, when the prison privatization rage was just getting under way, explained this history in an Oct. 6 radio interview with "EIR Talks": "I can tell [the privatizers] about two experiences with privatization of prisons. One was right after the Civil War, when imprisonment was used to replace black slavery, as a form of black slavery; and that was private prisons, largely. I can tell them of another case, which came to the fore in 1934 in Europe, under Adolf Hitler, when they created concentration camps, and they used the slaves in

FIGURE 1

Incarceration rates for selected nations, 1995

(rate of incarceration per 100,000 population)



Source: The Sentencing Project.

the concentration camps, the prisoners, as slave labor until they were worn to death by overwork and undernourishment and sent to die and to be buried.”

Auschwitz was, in fact, a privately run prison, operated by the IG Farben company to make synthetic rubber for Hitler’s war effort.

Right now, only about 18% of Federal prisoners and 6% of state prisoners are employed in prison industry programs, largely because of the restrictions imposed in opposition to prison labor. If the McCollum bill is passed, those figures will rapidly change. The “fat cow” of cheap labor will be milked dry by increasingly desperate businesses, looking for the nearest looting source as the financial crisis continues to deepen.

It can be stopped

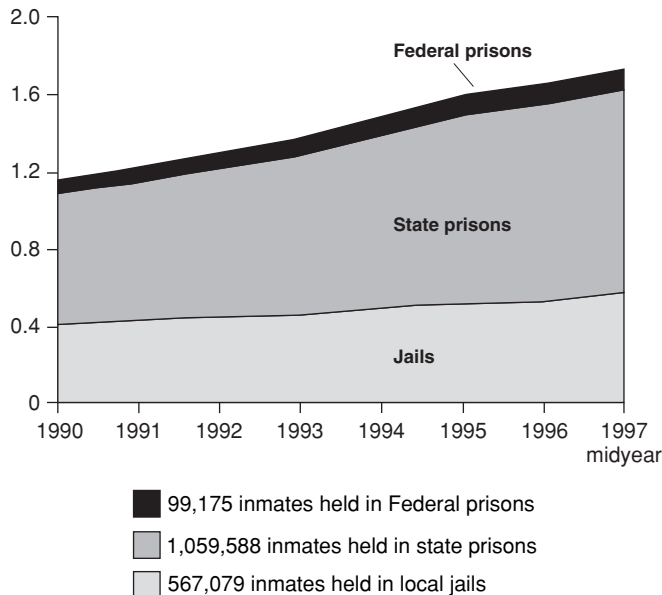
This can be stopped. The LaRouche political movement has spearheaded an effort among African-American state legislators, which has stopped the privatization of state prisons in Tennessee—the home of Corrections Corporation of America (CCA), the largest company in the world involved in building and running privatized prisons.

Trade unions, fighting for the survival of their members’

FIGURE 2

Number of inmates in custody

(millions)



Source: Private Corrections Project, Center for Studies in Criminology & Law, University of Florida.

jobs, have also been organizing aggressively to stop privatization. The AFL-CIO testified against H.R. 4100; and in May, the American Federation of State, County and Municipal Employees (AFSCME) launched a nationwide fight to stop the running of prisons by private companies. Many industry associations, particularly in those areas, like textile and wood products, which compete directly with prison industries, are also opposed to McCollum’s bill, fearing that widespread use of prison labor will wipe them out of business.

The key to defeating this, however, is a change in Americans’ thinking. In order to win, Americans will have to stop their blind submission to the Conservative Revolution’s drumbeat about “criminals,” and begin to realize who the real criminals are. While not condoning either crime or drug use—the most common felony resulting in prison time—Americans must begin to think about *why* so many people are behind bars. Who is getting ready to make a fortune from this unprecedented level of incarceration? Who is killing the budget outlays for rehabilitating and detoxifying and reforming those prisoners so they can get out and be productive citizens?

The next time you hear about a CCA lobbyist pushing for tougher jail sentences for criminals, ask yourself, just what is his motivation? And, whose job are they going to take?

'Free market' slave labor for U.S. prisons

by Marianna Wertz

On June 19, Rep. Bill McCollum (R-Fla.) introduced "The Free Market Prison Industries Reform Act of 1998," H.R. 4100. The purpose of the bill is to eliminate all restrictions to the operation of private firms in America's Federal, and ultimately state, prisons, employing the 1.8 million prisoners for profit. The bill is still in the process of committee hearings.

To understand the full import of H.R. 4100, one must first know the history of prison industries in this country. Full-scale use of prisoners as a source of cheap labor began in the United States following the Civil War, when freed slaves were routinely imprisoned in the South and put to work on chain gangs and other convict labor programs. The horrendous conditions for these prisoners, including being worked to death, became so notorious that a movement to ban the practice grew nationwide. With the Great Depression of the 1930s, this prison reform movement intersected a growing

fight in the nascent trade union movement, to stop the use of prison labor from competing with increasingly desperate free labor in the nation.

The Hawes Cooper Act of 1929 made it illegal to produce goods in prisons for private sale across state lines. In 1935, the Sumner-Amherst Act made it illegal to transport goods produced by prisoners for sale in the private sector, and the Walsh-Healy Act banned the use of convict labor in Federal procurement contracts of more than \$10,000.

In 1934, the Federal Prison Industries program, also known by its trade name, UNICOR, was established, shortly after the creation of the Bureau of Prisons (BOP). FPI is a wholly owned government corporation, managed by the BOP. FPI's enabling statute included numerous features designed to allow Federal prisoners to work for a small salary, but to minimize FPI's impact on the private sector. With the mushrooming of the prison population, FPI has also grown. Today it markets about 150 types of products and services to Federal agencies, which, under current law, must purchase certain specified products from FPI as a "mandatory source preference." FPI has grown to net sales of about \$512 million annually (1997), with products including furniture, textiles, and electronic components, and services including data entry, engine repair, and furniture refinishing.

The growing prison industry

A compromise with the restrictions on prison-made goods being sold through interstate commerce was first legislated in

Who is Bill McCollum?

In Congress since 1980, McCollum is chairman of the House Judiciary Committee's Subcommittee on Crime, and has long been a spokesman for the really criminal elements in the Department of Justice and the George Bush apparatus. McCollum owes his seat in Congress to one of the dirtiest operations of the Justice Department permanent bureaucracy.



McCollum ran against incumbent Rep. Richard Kelly in the 1980 primary election. Veteran Florida newsmen say McCollum was initially laughed at because he was a political unknown, while Kelly was an established figure.

But when McCollum entered the election race, the FBI was already running an "Abscam" sting operation against Kelly. A young man who had been let off after being arrested for international cocaine smuggling, had been planted in Kelly's office as chief of staff, and had coordinated a 13-month campaign to make Kelly appear to commit some indictable offense. The operation was leaked to the press, Kelly was ruined, and McCollum was elected. Kelly was sent to prison for "accepting a bribe," after refusing the judge's offer to declare it a case of entrapment, if Kelly would admit to "corrupt intent."

McCollum then became a prominent Congressional defender of illegal government acts centered on the George Bush-Oliver North "Contras" program. And McCollum chose the spokesman for the Bush administration's Justice Department, Paul McNulty, as chief counsel for his Crime Subcommittee.

McCollum enjoys a rare 100% rating with the Christian Coalition and the National Security Index of the American Security Council; the AFL-CIO's Committee on Political Education gives him a 13% rating.

—Anton Chaitkin and Marianna Wertz

1979, through the Prison Industry Enhancement (PIE) Certification Program, under the Justice System Improvement Act. The PIE program is a foot-in-the-door to the kind of full introduction of private industry which McCollum's bill envisions. It authorizes correctional agencies to engage in the interstate shipment of prison-made goods for private business use if: 1) inmates are paid at a rate not less than that paid for work of a similar nature in the locality in which the work takes place; 2) prior to the initiation of a project, local unions are consulted; and 3) the employment of inmates does not result in the displacement of employed workers outside the prison, does not occur in occupations in which there is a surplus of labor in the locality, and does not impair existing contracts for services.

As is apparent from Edward Spannaus's report on the Virginia Correctional Enterprises program (see accompanying article), the PIE rules are ignored as often as they are honored.

Both UNICOR and PIE programs today are still relatively limited, with about 6% of the 1.6 million state prison inmates and 18% of the 110,000 Federal prisoners currently employed in prison industries. Total sales in 1994 in the PIE programs reached \$1.4 billion.

But the state prison industry programs have been expanding rapidly since 1990, with the Gingrich Congress and Conservative Revolution wins in state legislatures. Thirty states have established PIE programs, legalizing the contracting of prison labor to private companies that set up operations inside state prisons. A sample list of items being produced in these programs today was given by AFL-CIO Public Policy Director David A. Smith, in testimony opposing H.R. 4110:

- In the Oregon State Prison System, prisoners are producing Prison Blues, a line of jeans, T-shirts, and other recreational clothing, in direct competition with textile workers.
- In Texas, prisoners in a private prison owned by the Wackenhut Corp. make and fix electronic circuit boards for IBM.
- In Colorado, prisoners do telemarketing for AT&T.
- In South Carolina, Victoria's Secret lingerie and Jostens' graduation gowns are made by prisoners.
- In Wisconsin, the Fabray Glove Company reduced its private sector work force by about 85 employees and now employs about 140 Wisconsin state prisoners at two facilities.

What H.R. 4110 will do

McCollum's bill will basically wipe out every existing limitation on the use of prison labor for private profit, and return the nation's prisoners to the status of convict labor after the Civil War. As McCollum said, in his press statement announcing the bill on June 19, "The main thrust of the bill is to encourage more private sector participation in the Federal prison industry program. Goods that are manufactured by these companies would be sold on the open market, and eventually all prison industry programs will be operated by private

industry and compete in the commercial marketplace" (emphasis in the original). He also noted that "expanding inmate employment in the states would save states billions of dollars in prison operations costs."

Other provisions of the bill, in McCollum's words, include:

"Phasing out the 'mandatory source preferences' which require the government to buy from Federal prison industries;

"Generating increased revenue for victim restitution, support to inmates' families, and the cost of incarcerating prisoners;

"Encouraging the BOP to award contracts to companies who bring back to the U.S. work lost to foreign countries;

"Lifting the Federal restrictions on the interstate transportation of goods made in state prison industry programs operated by private industry; and

"Requiring the Attorney General to submit a plan to transfer the operation of Federal prison industry programs to a non-government corporation."

McCollum noted that "the Attorney General would determine the amount of the compensation to be distributed as wages to inmates working in the industry"—i.e., it needn't be minimum wage. The prisoners will receive whatever is left over after payment goes to victim restitution, to inmates' families, and for "room and board."

Documentation

Testimony vs. H.R. 4100

A June 25 hearing before the House Judiciary Committee's Subcommittee on Crime took testimony from representatives of organized labor and industry affected by competition with prison labor. The groups that testified endorsed H.R. 2758, a bipartisan bill known as the "Federal Prison Industries Competition in Contracting Act of 1997," introduced by Congressmen Hoekstra, Frank, Collins, and Maloney earlier this year, which would reform the FPI without introducing privatization.

David A. Smith, director of the AFL-CIO's Public Policy Department, gave the testimony excerpted here, and endorsed H.R. 2758.

The issue before you reflects an unprecedented combination of circumstances: growing prison population, the costs associated with that growth, the interest of many employers in finding new sources of low-wage labor.

The AFL-CIO and its affiliated unions, nationally and in the states, have consistently supported efforts to provide training opportunities for prisoners to help in their rehabilita-

tion, and to reduce recidivism, but always with caution that prisoners should never be used in competition with free labor or to replace free labor.

Unfortunately, today, prison labor is increasingly being used in both the states and by the Federal government to perform work in both the private and public sectors ordinarily done by free workers. Twenty-one states have statutes that compel prisoners to work, and others enforce policies that penalize inmates who refuse to work. Prison laborers are generally denied coverage under minimum wage, unemployment compensation, workers' compensation, collective bargaining and other worker protection laws.

I should note that the use of inmate labor in this manner appears to violate Convention No. 105, adopted by the International Labor Organization in 1957 and ratified by the United States in 1991, which prohibits the use of forced prison labor for economic development. . . .

Prisoners are not just another market resource. Free market principles simply do not apply to a prison population that can be compelled to work for below-standard wages and without having to provide the working conditions or labor standards that private enterprise must. . . .

The proposed legislation calls for repeal of Section 4123 of Title 18, the provision of FPI's authorizing statute that calls for "maximum opportunities to acquire a knowledge and skill in trades and occupations which will provide them with a means of earning a livelihood upon release." Incredibly, this bill would also undercut the rehabilitative benefits of inmate work opportunities when more opportunities are needed.

Textile industry devastated

Larry Martin, *president of the American Apparel Manufacturers Association (AAMA), the central trade association for American companies that manufacture clothing, in direct competition with the FPI system, also opposed H.R. 4100 and endorsed H.R. 2758, in the testimony excerpted here:*

AAMA is the central trade association for American companies which manufacture clothing. . . . Our Government Contracts committee is comprised of about 50 companies, all of which have vital interests in your deliberations and in the future of Prison Industries.

As we have pointed out before, these government contracting companies have few options. They have little or no experience in the already overcrowded commercial marketplace. Half of that market already has been taken by imports, while the other half is contested by about 12,000 domestic firms. Moreover, the apparel industry in the United States is shrinking dramatically. In the last five years, we have lost 220,000 jobs.

Also, we cannot overemphasize the importance of maintaining a warm industrial base in the United States. If the companies which manufacture for the Department of Defense go out of business, who is going to expand production in the event of a sudden military buildup, such as we witnessed

during the Gulf War? We seriously doubt that FPI will ever have that capability. . . .

Moreover, if FPI is to compete in the commercial marketplace, it should do so on even terms. It should be subject to minimum wage laws and to a true accounting of its overhead costs.

Private prisons are U.S. 'growth industry'

by Marianna Wertz

In addition to privately run industries within state and Federal prisons, the newest and undoubtedly most dangerous innovation in the American prison system is the booming private prison business. More than 150 prisons and jails are being entirely run today by private companies—18 of them at last count—whose entire existence is devoted to making a profit by running a correctional facility.

Private prisons are one of the biggest "growth spots" on Wall Street. The *Public Investor* newsletter says that it is "so bullish" on this sector for one reason: "the possibilities of high growth year after year." Prudential Securities puts it another way: The only "drag on profits" for private prisons is "low occupancy."

In other words, as long as crime continues to rise, or as long as our nation continues to mete out long prison sentences, private prisons will be making a nice profit for their investors.

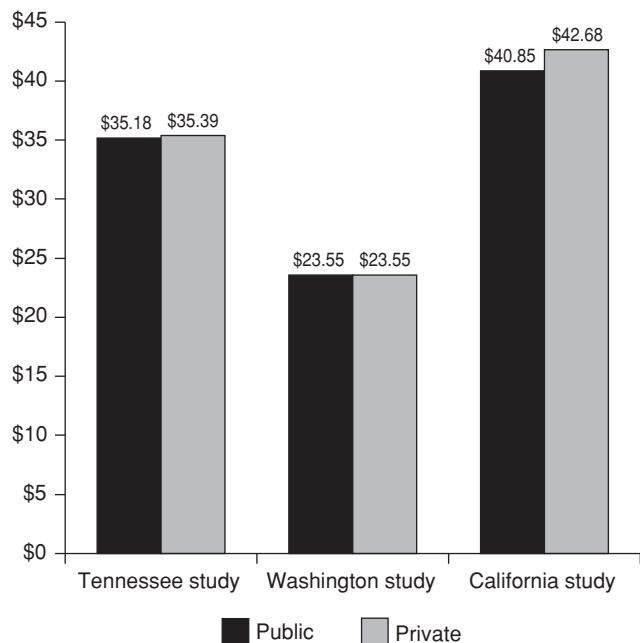
Therein lies the fundamental human rights question: Since the ultimate human right is freedom, which is guaranteed by our Constitution, should Americans be incarcerated in prisons under the operation of private companies whose major concern is to make a profit, in which they can only succeed if their wards are kept in prison? Should those who have a private interest in incarcerating people, be in charge of their incarceration?

As *EIR* has documented (see April 10, 1998; March 6, 1998; Oct. 17, 1997; Sept. 5, 1997), the levels of murder, rape, abuse, and escape are higher per capita in private prisons than in government-run facilities, and, under existing law in most states, it is the taxpayer who ends up paying for the damages wrought by the private prison company. In addition, the only real reason these companies exist is their claim to save money for states and municipalities. But, as **Figure 1** demonstrates, even this claim is not true.

Nevertheless, privately run prisons today manage approximately 5% of the nation's prisons and jails, with 105,000 beds. They are projected to grow to more than 320,000 beds by 2002.

FIGURE 1

Per diem cost of maintaining a prisoner in public vs. private prisons



Source: ASCME report, "Should Crime Pay?" May 1998.

Bentham's 'Panopticon'

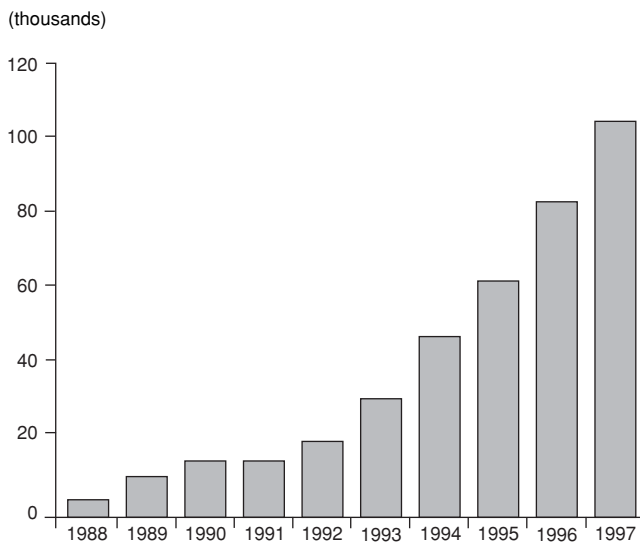
As **Figure 2** shows, privately run prisons first appeared on the modern American scene in 1988, during George Bush's Presidency. It was no accident that Bush's Bureau of Prisons director, J. Michael Quinlan, went directly from the BOP to head of "strategic investment" at the nation's largest private prison company, Corrections Corporation of America, when Bush lost the Presidency in 1992. Today, Quinlan heads up CCA's Prison Realty Trust.

The real conception behind private prisons, however, can be traced to British philosopher Jeremy Bentham, whose 1797 plan, "Panopticon Hill Villages," envisioned a joint stock company modelled on the British East India Company and financed by the Bank of England, which would employ the thousands of beggars locked up in Britain's debtor prisons. Bentham even drew up designs for his prisons, to enable the "corporation overseer" to get the most possible work out of each prisoner. Like his modern followers, Bentham believed that it was a crime to be poor, and that "criminals" should be "reformed" through work—at the lowest possible cost.

The LaRouche political movement has been working with legislators in several states, to stop the further spread of prison privatization. Last year, Missouri state Rep. Quincy Troupe (D-St. Louis) spearheaded a drive in the National Black Caucus of State Legislators (NBCSL) to stop prison privatization. Troupe learned about private prisons first-hand when Mis-

FIGURE 2

Ten-year growth in design capacity of secure private adult correctional facilities



Source: Private Corrections Project, Center for Studies in Criminology & Law, University of Florida.

souri prisoners became the victims of a privately run prison in Texas. A videotape released on Aug. 12, 1997 showed Missouri inmates at the Brazoria County Detention Center in Texas being beaten, prodded with stun guns, stepped on, kicked in the groin, and bitten by police dogs. Troupe acted on the situation, and not only were the prisoners moved back to Missouri, but Capital Correctional Resources Inc., the private prison company, packed up and left Texas altogether, in the wake of the scandal.

In a letter to NBCSL members, Troupe wrote, "It is our moral, as well as our political duty, to oppose the privatization of prisons in our states, and also federally. I believe this both because we represent African-American constituents who are the principal grist for this man-killing 'industry'; and because the philosophy which stands behind prison privatization is un-American and inhuman.

"Prison privatization is being sold as a cost-saving device, particularly in an era when Americans, and particularly African-Americans, are being incarcerated in record numbers, indeed numbers greater than in *any* other democratic nation. But there is no study today which demonstrates that, in the long run, these savings are real, and there is plenty of evidence . . . to indicate that the cost is far too high for what little might be saved. . . .

"Are our sons, daughters, families, and constituents being locked up for life to feed a 'prison industrial complex,' like a vampire who needs fresh blood to continue to grow and survive in darkness? The chilling reality of the information that is enclosed reveals an evolving contemporary form of slavery."

Prison labor program riddled with scandal

by Edward Spannaus

“Virginia prisons. They’re wide open to business.” This is how Virginia Correctional Enterprises advertises the availability of its inmate population to be hired out to private companies. The VCE brochure shows a barbed-wire compound with a guard tower, with the slogan: “An ideal location your site selection committee may have overlooked.”

In 1993, the Virginia General Assembly passed a law permitting the state prison system to enter into joint ventures with private companies for manufacturing projects utilizing prison labor. In 1995, Virginia applied for and received certification from the U.S. government under the Federal Prison Industries Enhancement (PIE) program.

However, an *EIR* investigation has shown that these laws appear to have simply served as a pretext to allow Virginia to open up its prisons to private profiteers—since the Virginia prison-labor program is *not* in compliance with either Federal or state statutes.

Now, a scandal which has been brewing for at least 18 months, has finally broken into the open, as shown by a raucous hearing of the state Senate Finance Committee on July 17, and a flood of newspaper articles. An editorial in the Norfolk *Virginian-Pilot* on July 22 opened as follows: “The irony of officials in the Department of Corrections engaging in illegal activities should not be lost on any Virginians—including the convicts who were used for cheap labor in what appears to be a colossal case of mismanagement, perhaps fraud.”

Scofflaw Virginia

Although Virginia boasts of its PIE certification, it had only two projects certified under the PIE program—and both were money-losers and have been terminated. The PIE program allows prison-made goods to enter interstate commerce if certain conditions, such as paying the minimum or prevailing wage, are met. However, Virginia officials contend that if goods are shipped overseas, or are sold within the state, they are exempt from Federal laws.

The project which has gotten the most attention is one involving the manufacture of flight suits and vests for a Massachusetts businessman, who was supposedly shipping the items overseas. Inmates were told that the products were going to Taiwan, Thailand, Peru, Spain, and other countries. But the items were apparently shipped overseas, and then brought

back into the United States. Not only that, but VCE was selling the vests for only \$1.10 apiece, even though their manufacturing cost was \$13 per vest; the flight suits cost almost \$60 each to make, but were being sold for only \$3.

This project was raided and shut down in January 1997, and was supposedly the subject of a State Police investigation—until the probe was recently taken over by the U.S. Attorney and the FBI in Richmond. State officials have attempted to portray the deal as the action of a “renegade” employee who was operating completely on his own. Corrections Director Ron Angelone says, “This was not a sanctioned operation, so people did it without the knowledge of anyone but themselves.”

Even a reading of recent official audits of VCE by the state’s Auditor of Public Accounts shows that there is far more wrongdoing than this one deal. And, sources familiar with the overall VCE operation say that this is merely the tip of the iceberg, and that the scandal reaches all the way up to the former Governor, George Allen, and his Attorney General, Jim Gilmore—who was elected Governor last November, while the scandal was being kept under wraps, except for the efforts of *EIR* News Service.

The previous director of VCE, David Jones, resigned in December 1996 and soon went to work for a Richmond furniture company, Morton Marks & Sons, with which Jones had entered into a joint venture arrangement in April 1996, while Jones was still at VCE. Under state law, all production agreements with private companies are to be approved by the Governor and reviewed by the VCE advisory board. But last year’s audit of VCE found that there was no documentation for the joint ventures for furniture manufacturing in VCE’s files—as is required by law.

“If any documentation existed to support VCE’s decision to enter these agreements, it disappeared when [Jones] left,” the audit report stated. The report further stated that without the documentation, “it is impossible to assess the propriety” of the joint ventures, and further, that VCE “risks losing its PIE certification” without supporting documentation.

There is only one major joint venture described in the most recent audit: the Morton Marks deal. The audit found that VCE is “experiencing cash flow problems to the point it cannot pay its obligations.” The audit says the cash flow problems began in 1996, when VCE began the joint venture operations. The biggest single problem for VCE is Morton Marks, which owes about \$1.2 million to VCE. Not surprisingly, besides employing the former head of VCE, Morton Marks was the second-largest campaign contributor to Jim Gilmore’s gubernatorial campaign in 1997.

Perhaps most astounding of all, the official audit found that there are 20 VCE customers for whom there was no documentation at all in VCE’s records!

Evidence is mounting to suggest that VCE was a means for corrupt officials and private businessmen to line their pockets, using prison labor at an average wage of 63¢ an hour.

Workfare is a human rights violation

by Marianna Wertz

When the question of “human rights” is raised, the issue of workfare, and the forced labor of millions of young mothers and other welfare recipients, working for minimum wage or less, must be included. While nobody will rightly claim that the old welfare system functioned adequately, what is replacing it is, by design, a “human recycling” institution. Workfarers, forced to work for their welfare checks without adequate training or education to gain real jobs, have become an integral part of the pool of cheap labor—which also includes prisoners and workers in the “developing world,” such as the *maquiladora* labor in Mexico—who are being used to drive down wages and working conditions generally, and specifically to destroy unions.

In the early 1970s, when experiments in workfare first began under the Nixon Presidency, Lyndon LaRouche and the political movement he heads firmly opposed what he then rightly called a “slave labor” policy, that would pit welfare recipients against urban municipal workers, for an increasingly smaller share of a shrinking pie. The LaRouche movement waged a fierce battle, particularly in New York and Philadelphia, to create a political movement that would unite the employed and unemployed, welfare recipients and trade unionists, in opposition to workfare slave labor and in support of economic development policies and financial reorganization that would require the training of welfare recipients and other unemployed into a skilled labor force. That fight sparked the creation of the National Unemployed and Welfare Rights Organization, which, with allies in labor and welfare rights organizations, successfully fought off the full-scale implementation of workfare in the United States at that time.

The Conservative Revolution program

But the slave-labor policy didn’t die. In August 1996, it was institutionalized in Federal and state law, when the Conservative Revolution-controlled Congress passed its landmark welfare reform legislation, outrageously named the Personal Responsibility and Work Opportunity Reconciliation Act, one of the first and most proclaimed planks of the “Contract on America.” President Clinton, in one of his worst political moments, signed it into law.

The AFL-CIO Executive Council passed a resolution on “Welfare and Workers’ Rights” on Feb. 17, 1997, which made

clear union workers’ view of workfare. “The new Federal welfare law will have a profound impact on all workers, no matter what job they do or where they live. While the new law requires that states place up to a million welfare recipients in ‘work activities’ in 1997, it doesn’t say how enough new jobs will be created to absorb this astounding number of people into the workforce in such a short period of time. Without a sufficient number of jobs for everyone, the new law will result in ‘musical chairs,’ denying welfare recipients the real jobs they need and placing tremendous pressure on current workers. Lower-skilled workers are particularly threatened by the loss of protections that were contained in the old welfare law. . . . We in organized labor know that the establishment of a sub-class of workers without labor protections will bring down the wages and working conditions of all workers,” the statement read. A second resolution committed the labor federation to organize the welfare workers into unions, and to fight for their right to the same protections under the law to which all American workers are entitled.

The New York model for slave labor

New York City has come full circle since the battles of the 1970s. Today, New York is the model workfare city, where the most vicious policies pitting workfarers against the employed are being carried out with unparalleled thoroughness. Today, there are more than 120,000 Public Assistance recipients laboring for free in New York City, in jobs left vacant by “redundant” municipal workers.

The New York Work Experience Program mandates welfare recipients to work in city agencies, performing city work, for no pay other than their minimal assistance check. Those who refuse, or who cannot keep a job, are purged. Since 1995, nearly 400,000 people have been purged from the welfare rolls in New York City. Many of them now work in throwaway jobs, while countless others have become part of the “missing” workforce—the vagrant and homeless millions who wander the streets of our urban centers, doing transient work, sleeping in shelters, many of them victims of, or participants in the ever-present drug trade, uncounted and uncared for by those who proclaim that workfare has been a “success.”

On July 20, New York Mayor Rudolph W. Giuliani proclaimed victory for his workfare policy. Giuliani, a likely candidate for the GOP nomination for vice president in 2000, announced his plan to require virtually all adults on welfare in New York City to work for their benefits by the year 2000. “From the welfare capital of America, we will become the work capital of America, the place that understands the value of work in a deep philosophical and metaphysical sense much more than any other place in the United States,” the Mayor boasted.

His words are reminiscent of the declaration over the entrance to the Auschwitz concentration camp in Nazi Germany: “Work makes you free.”

Block the British plan for disintegration of Indonesia

by Michael O. Billington

On July 11, Amien Rais, head of the second-largest Muslim organization in Indonesia, the 28-million-member Muhammadiyah, and a prominent leader of the student movement which helped to precipitate the resignation of President Suharto in May, warned about the deepening depression and social crisis in Indonesia: "I find that the syndrome of Yugoslavia and the former Soviet Union is creeping into Indonesia. There is the danger that the country may go the way those two states have gone—crumbling into pieces," he said.

Rais delivered this warning to a prestigious think-tank in Malaysia, shortly after a meeting with Malaysian Prime Minister Dr. Mahathir bin Mohamad, who has consistently identified the hot-money speculation of the deregulated globalization process, and the International Monetary Fund (IMF) conditions imposed on the speculators' victims, as the cause of the continuing destruction of the Asian economies.

It is particularly important that Rais, who, during the escalating student demonstrations earlier this year, blamed the Indonesian crisis on President Suharto and his "cronies," is now emphasizing that the economy is getting worse in spite of Suharto's ouster, and that he himself is "losing faith in the IMF."

Rais is not the first to warn against the disintegration of the world's fourth most populous nation. President Suharto himself, who is credited even by his enemies with forging national unity during his 32 years as President, by enforcing the state doctrine of tolerance and collaboration between and among the diverse ethnic and religious layers of Indonesian society, said before he resigned that a loss of national cohesion could provoke a "great conflict that would threaten our development and even give rise to civil war."

Such divisiveness is, of course, the classic mode of colonial control by Britain and other former European colonial powers, and typical of Britain's policy *before* granting independence to their colonies, in order to facilitate continued economic control over weakened nations. So, too, today, the same former European colonial powers, the British, the Dutch, and the Portuguese, are leaping into the chaos of the new depression to achieve what they failed to achieve in the 1940s and 1950s: the breakup of Indonesia. The primary initial targets are the provinces of East Timor, a Portuguese colony until late 1975, and Irian Jaya, a Dutch colony until 1963, but every conceivable separatist tendency that has ever shown promise to the colonial powers is also being activated. The headquarters for these operations is in London, where Tapol, for years the leading clearinghouse for anti-Indonesia propaganda in support of East Timor, functions under the protection of Lord Avebury, the British House of Lords' leading supporter of international terrorist and separatist movements. A secondary center of operations targetting Indonesia has been the Unrecognized Peoples and Nations Organization, based in the Netherlands, which defends claims of separatist movements not only in Indonesia's East Timor and Irian Jaya, but also in Aceh, Sulawesi, Maluku, and Kalimantan.

British assets in the U.S. Congress

Although President Clinton has strictly defended Indonesia's sovereignty, a faction of de facto British assets in the U.S. Congress has intervened against that sovereignty, directly contributing to a potentially bloody crisis in both Irian Jaya and East Timor. A group of 15 members of Congress, led by three notorious members of Christian Solidarity Inter-

FIGURE 1

British target Indonesia for breakup



national (CSI), a British intelligence front, Frank Wolf (R-Va.), Chris Smith (R-N.J.), and Donald Payne (D-N.J.), wrote a letter to Indonesia's new President, B.J. Habibie, demanding that his government initiate a "direct, good faith dialogue" with pro-independence supporters in East Timor and Irian Jaya, to find a "just solution to their political status," while also giving a nod of approval to similar potentialities in Aceh, Kalimantan, Maluku, and Sulawesi. The letter also effectively called on Indonesia to *change its Constitution*, to weaken or eliminate the constitutional role of the military in Indonesian society — the so-called "dual function" (*dwifungsi*) of the military.

This letter, a blatant violation of Indonesian sovereignty — contrary to U.S. policy — was translated into *bahasa Indonesia* and leafleted in both East Timor and Irian Jaya.

In Irian Jaya, according to Antara News Wire, the Indonesian state wire service, "the letter prompted the Irianese to raise the West Papuan flag" (the flag of the Free Papua Movement, OPM), leading to confrontations with police in two locations, in which two youth were seriously wounded. The rector of Cendrawasih University, the scene of one of the

confrontations, told the press that the Congressional letter was misleading and "has aroused emotions and formed public opinion which stirred trouble among the Irianese." Irian Jaya Military Commander Maj. Gen. Amir Sembiring announced that there would be an investigation of "external participation in the rallies," and of who was responsible for publishing and distributing the letter. He made clear that any plot to overthrow the government would necessarily require police action, although peaceful demonstrations and calls for reform were both legal and welcome.

The fact that U.S. Rep. Joseph Kennedy (D-Mass.) is one of the signers on the letter, is particularly ironic — and is probably causing John F. Kennedy to turn over in his grave. A brief history of the fight over Irian Jaya, which was at the center of the battle against colonialism and the building of the Non-Aligned Movement in the 1950s and 1960s, will explain JFK's unrest.

Truman, Dulles, and Dutch colonialism

When President Franklin Roosevelt died in April 1945, his plans for an "American Century" died with him. Roose-

velt was publicly committed to ending both “19th-century British methods” and the European colonial empires which were a crucial part of that system. Instead, Roosevelt envisioned the application of American technology and America’s nation-building methods to the development of the Third World, building on the U.S.-Russia-China alliance that had won the war against fascism. (See, Lyndon H. LaRouche, Jr., “Where Franklin Roosevelt Was Interrupted,” *EIR*, July 17, 1998.)

President Harry Truman, however, served his British controllers in creating a bi-polar world, based on a Cold War that was very hot in the colonial world—especially in Asia. In Indonesia, Truman openly backed the British and the Dutch in reasserting Dutch colonial control. To justify the Dutch war against the Indonesian nationalists led by General Sukarno, the nationalists were transformed into “communists” in Western Cold War propaganda.

Nonetheless, the Indonesian revolutionary army defeated the Dutch forces, in a war that lasted from 1945 to 1949. When, in 1948, General Sukarno’s forces also suppressed an uprising by communist forces, the British and Dutch could no longer maintain the myth of “fighting communism.” The United States switched its support to the nationalists, and the Dutch conceded.

However, the Dutch refused to relinquish control over Dutch New Guinea, known today as Irian Jaya, agreeing only to negotiate the issue. Such negotiations were not forthcoming. By 1955, with the Cold War in full swing, and John Foster Dulles as President Dwight Eisenhower’s Secretary of State, the United States was actively supporting French, British, Portuguese, and Dutch colonialism in Asia, supposedly to “combat communism,” and to prop up the European NATO nations against “communism” in Europe. The Dutch refused to budge on Irian Jaya.

In April 1955, President Sukarno co-sponsored and hosted the historic Asian-African Conference, held in Bandung, Indonesia. For the first time in history, the leaders of 29 nations of Asia and Africa came together, without Western sponsors, united by a passionate commitment to eradicate colonialism in all its forms from the face of the earth, and to foster economic development as the basis for peace for all nations. (It was this conference which provided the spark for the creation of the Non-Aligned Movement.) One of the major issues uniting all participants in Bandung, whether generally identified as “pro-communist” or “anti-communist” in the Cold War line-up, was the demand that the Dutch come to the table to discuss the return of Irian Jaya to Indonesian sovereignty, and that the United Nations must support that just demand.

Secretary of State Dulles, however, insisted that the United States abstain on all UN votes regarding Irian Jaya, and even proposed that the United States openly support the Dutch colonial position. In classic British style, Dulles in-

sisted that “in view of the pro-communist trend of Sukarno . . . it is almost absurd to be neutral toward the extending of the Indonesian authority to a new area.”

John Foster Dulles worked in tandem with his brother Allen Dulles, who was Eisenhower’s CIA chief. Allen Dulles had worked directly with British Intelligence during World War II in the U.S. Office of Strategic Services (OSS, predecessor to the CIA), shaping a British-aligned faction in the emerging U.S. intelligence structure. The Dulles brothers and their British allies were involved in far more serious efforts to destroy Indonesia, as presented in the accompanying article. As to Irian Jaya, it remained in colonial hands until the Kennedy Presidency.

President Kennedy sent his brother Robert, the U.S. Attorney General, to Jakarta in 1962, where he pledged U.S. support in forcing the Dutch hand in restoring Indonesia’s sovereignty over Irian Jaya, while also cleaning up some of the other dirty laundry left over by the Dulles brothers.

Is Rep. Joseph Kennedy unaware of the anti-colonial measures of his father and his uncle in Indonesia, which he is trampling on today, in league with the overtly pro-colonial “Wolf-pack” of Wolf, Smith, and Payne?

A solution for East Timor

In light of the history of Irian Jaya, the real issues of the East Timor conflict can be discerned from behind the veil of lies and half-truths spread by the colonial powers and their non-governmental organizations (NGO) apparatus. East Timor is only divided from West Timor, which has always been an Indonesian province, because it was colonized by the Portuguese rather than the Dutch. Portugal held onto its colonial outpost through the anti-colonial ferment of the 1950s and 1960s, keeping it as a primitive backwater with virtually no infrastructure, and few schools, hospitals, and churches—and no plans to change the situation. Only in 1974, when Portugal was taken over by leftist military forces, did the “mother country” suddenly desert its colony, virtually in the dead of night, leaving nothing behind except their weapons, which were turned over to an overtly terrorist organization called Fretelin. With the support of most of the other political institutions in East Timor, the Indonesian military moved in. East Timor became the 27th province of Indonesia, although the United Nations has refused to recognize that fact, officially recognizing Portugal as the “administrative” power. Over subsequent years, the suppression of the terrorist, secessionist movement has led to several incidents of extreme brutality and excesses by sections of the Indonesian military—excesses that have been publicly acknowledged in recent years by Jakarta, with measures taken to punish those responsible and prevent their recurrence.

Nearly always left out of the hue and cry over East Timor by the colonial powers (including George Soros-fi-

nanced NGOs in the United States, such as Human Rights Watch) is the fact that Indonesia dramatically transformed the province economically and socially, in a way the Portuguese never would. Schools, hospitals, universities, and churches filled the province, while development funds were pumped in to bring the backward region up to the standards of the rapidly developing Indonesia.

Despite international efforts to promote the Fretelin terrorists (including awarding the Nobel Peace Prize to Fretelin spokesman Jose Ramos Horta), Bishop Carlos Ximenes Belo, the only East Timorese leader who enjoys the respect of the entire population, has negotiated a promising peace settlement with Jakarta over the past few years, and especially in recent weeks. Bishop Belo has carefully kept his distance from Ramos Horta (even though they were joint recipients of the Nobel Prize) and other Fretelin operatives, while working to inspire the population to win their just demands *within* Indonesian sovereignty, and without falling prey to internal or external provocations to violence.

When President Habibie took office in May, one of his first acts was to declare his intention to promote special autonomous status to East Timor, within Indonesian sovereignty, similar to that granted to other regions of Indonesia. He released many of the political prisoners, and has pledged to release Fretelin leader Xanana Gusmao and others as part of an international settlement—provided Indonesian sovereignty over the province is officially recognized.

Nearly all the forces involved in the East Timor question, including even the Portuguese government, have expressed great optimism that the proposals put forward by President Habibie and Bishop Belo can finally bring about a peaceful solution. And yet, the social situation within East Timor is deteriorating.

A delegation of European Union ambassadors who toured East Timor in late June was mobbed by demonstrators, who then violently attacked the Indonesian security detail escorting the diplomatic delegation. The ambassadors cut the tour short and returned to Jakarta.

There are also reports that thousands of people have already fled or are fleeing East Timor in advance of the July 17 anniversary of East Timor's official incorporation into Indonesia in 1976. Those fleeing are primarily "transmigrants," i.e., farmers and others from more densely populated parts of Indonesia who were encouraged to emigrate to East Timor, but who are now fearful of attack from gangs in the highly politicized environment.

While the ferment can be largely blamed on the economic disaster which is hitting every corner of the Indonesian archipelago, and which has stirred up dormant religious and ethnic prejudices everywhere, it is also the case that external provocations, including the Wolf-pack letter, are fanning the flames.

Divide and conquer

Beyond the immediate crises in Irian Jaya and East Timor is the potential for other separatist movements to reappear across Indonesia. A top adviser to President Habibie, Dr. Dewi Fortuna Anwar, pointed out that, to Indonesians, East Timor is "unfinished business," but that there is no sound basis for questioning Irian Jaya as a legitimate part of Indonesia. "If Irian Jaya starts clamoring for the same special status as East Timor," she said, "that would create a very dangerous precedent for the rest of the country."

This returns us to Amien Rais's warning of the danger of disintegration of the country. Here, again, there is a sordid history of European colonial powers, and their supporters in the United States, sponsoring separatist movements with the explicit purpose of destroying Indonesia's national integrity. Between 1956 and 1958, the British sponsored a group of disgruntled military officers from the outlying provinces to rebel against the Indonesian Republic. In typical Cold War fashion, the British succeeded in using their assets in America, centered around the Dulles brothers in the Eisenhower administration, to do the dirty work and to provide the funds and the weapons. All of Sumatra and the Celebes (Sulawesi) were at one point under rebel control, although the Army relatively easily suppressed the revolt. (See accompanying article.) The exposed U.S. role in this treachery fed anti-American sentiments in Indonesia and elsewhere for many years to come.

The U.S. role today

President Clinton has, thus far, failed to depart from the IMF script for Indonesia and the other collapsing nations of Asia, eastern Europe, and Ibero-America. Continuing support for IMF-imposed destruction of the real economies of these nations will prove disastrous for the United States, both economically and in terms of its moral authority in the global crisis.

The President did, however, to his credit, counter the worst effects of the "Wolf-pack" letter to Indonesia, and the similar howling from U.S.-based NGOs and the U.S. media, which are demanding the breakup of the Republic of Indonesia. On July 15, U.S. Ambassador J. Stapleton Roy responded to reporters, who asked if the United States is financing separatist activities in Indonesia. Roy stated, "We have no position of encouraging separatists in Indonesia. The American government did not give any money to any separatist movement in any part of Indonesia. . . . Our policy remains the same. We recognize that Indonesia has 27 provinces. We recognize East Timor as an integral part of Indonesia." And, he called for all parties to give the Habibie government's new proposal on East Timor "very serious consideration."

The state wire service, Antara, in reporting Roy's remarks, appended a separate story, quoting U.S. State Department spokesman James Rubin saying, "The United States recognizes Irian Jaya as an integral part of Indonesia."

The Cold War vs. the Non-Aligned Movement

by Michael O. Billington

The British objectives in the Pacific theater during World War II were diametrically opposed to those of the United States under Franklin D. Roosevelt. Roosevelt's vision for the peace included a U.S. alliance with a strong, united China, together with Russia, turning the productive power of the war industries toward reconstruction and industrialization of the once-colonized areas of the Third World. FDR's untimely death largely ended the hope that such a vision would be realized.

Eight years later, John Foster Dulles, President Dwight Eisenhower's Secretary of State, demonstrated his advocacy of British objectives, as opposed to those of his own nation, in regard to both Roosevelt's "strong China" policy during the war, and to U.S. policy toward those nations which had subsequently won their independence from the European colonial powers. The date is 1953. Hugh S. Cumming, Jr. has just been appointed U.S. Ambassador to Indonesia, and he records in his notebook his instructions from Secretary Dulles:

"Don't tie yourself irrevocably to a policy of preserving the unity of Indonesia. . . . The territorial integrity of China became a shibboleth. We finally got a territorially integrated China—for whose benefit? The Communists. . . . As between a territorially united Indonesia which is *leaning and progressing toward communism*, and a *break up of that country into racial and geographic units*, I would prefer the latter as furnishing a fulcrum in which the U.S. could work" (emphasis added).¹

The anti-China aspect of this policy reflected Britain's war-time battle with Roosevelt. London insisted that China should be divided up into warring factions, with the British controlling each of them. John Foster Dulles's brother Allen, who ran the New York office of the OSS during the war and became director of the CIA under Eisenhower, had worked directly with the head of Britain's war-time intelligence in China, John Keswick, head of the infamous drug-running firm Jardine Matheson in Hong Kong. The British policy toward China was neither anti-Communist nor pro-Communist, but

classic colonial divide and conquer. The attempted subversion of Indonesia in 1957 had the same purpose, despite the Cold War "anti-communist" rhetoric used by the British and those in Washington who were their allies.

Indonesia was the first Asian country to win its independence by force of arms. Under Dutch control, the country had been run as a federal system, with local autonomy for local matters granted to the many island divisions of the archipelago. Under General Sukarno's leadership, the country was united, and it fought a bloody war for independence, inspired explicitly on the revolutionary struggle of the American colonies. The first name for their nation was the United States of Indonesia, with a constitution modelled on that of the United States. National unity was predicated on religious and ethnic tolerance and equality.

Sukarno refused to take sides in Winston Churchill's Cold War. He suppressed communist insurgency, but permitted a legitimate, law-abiding Communist Party. He admired Ho Chi Minh and Tito as nationalists, not as communists, while maintaining close ties to the Western nations.

To the British, and to John Foster Dulles, refusing to "take sides" was equivalent to membership in the Communist International. The last straw was Sukarno's co-sponsorship of the Asian-African Conference, held in Bandung, Indonesia, in 1955, which formed the seed crystal for the Non-Aligned Movement. One of the primary purposes of the conference was to prevent the Cold War from boiling over into a full-scale military conflict between the United States and China, by beginning diplomatic discussions and economic collaboration between China and its neighbors, of whatever political persuasion, in league with their African brothers. President Sukarno's opening address appealed for peace and unity in combatting colonialism, calling upon the spirit of the American Revolution, as the "first successful anti-colonial war in history." He evoked the memory of Franklin Roosevelt, by referencing the "fear of the future, fear of the hydrogen bomb, fear of ideologies. Perhaps this fear is a greater danger than the danger itself." He also quoted the "words of one of Asia's greatest sons," Sun Yat-sen, to emphasize reason over mindless activism: "To understand is hardest. Once one understands, action is easy," he said.

Rather than recognizing this speech, and the emerging Non-Aligned Movement, as representing hope for global peace and development, the Cold Warriors saw "communism."

Subversion

The British response was subversion. They had already nurtured a general from North Sumatra, Maludin Simbolon, who was engaged in large-scale smuggling through the British Crown Colony of Singapore. He and others in central and south Sumatra were encouraged to declare autonomy (but not independence) in December 1956 and January 1957. President Sukarno and Army chief Abdul Haris Nasution re-

1. This quote, and much of the material in this article, is taken from Audrey R. and George McT. Kahin, *Subversion as Foreign Policy: The Secret Eisenhower and Dulles Debacle in Indonesia* (New York: The New Press, 1995).

sponded cautiously, engaging in dialogue and making limited concessions for local autonomy.

In March 1957, another general, N.H. Ventje Sumual, took over Sulawesi. President Sukarno declared an Emergency and a State of Siege, but continued to negotiate. In May, a former Finance Minister with extensive ties in Holland and England, Dr. Sumitro Djohadikusumo, fled Jakarta and joined the rebelling general in Sumatra.

Sumitro immediately set in motion plans to market all Sumatran goods through London to finance the rebellion, according to a Taiwanese friend of Sumitro. The British granted Sumitro a visa under an alias to facilitate regular travel to Singapore and London, and the generals were all provided with bank accounts in Singapore. Sumitro met in October 1957 with British Commissioner General for Southeast Asia Robert H. Scott. U.S. Ambassador Cumming told Washington that the British were "sympathetic with rebel aims but presently cool toward covert support."

In other words, "Let's get the dumb Americans to do the dirty work." Sometime in late 1957, the United States began supplying large quantities of weapons and supplies to both the Sumatran and the Sulawesi rebels. CIA-contracted aircraft (Civil Air Transport) and submarines provided the matériel, and U.S. bombers and bomber pilots were contracted to "private" agencies to provide the rebels considerable air power. Training camps were set up in Okinawa, and airdrops were flown in via Singapore.

With this support, the rebels declared a Revolutionary Government of the Republic of Indonesia in February 1958. In March, Army Chief General Nasution totally surprised the rebels (and the British and the Dulles brothers) by overwhelming rebel forces in central Sumatra. Within weeks, the Army had retaken all the major centers of Sumatra.

The U.S. support operation did not abate, however. Attention was shifted to Sulawesi, including the provision of clandestine B-25 and B-26 bombers. General Sumual took all of Sulawesi, and began moving into the Molucca islands (Maluku). He even had plans to take over southern Borneo (Kalimantan), leading to an invasion of Java.

But, again, Indonesian military power proved stronger than anticipated, and the rebels were held in check. Dulles recorded in a cable to Washington in May 1958, that British Foreign Secretary Selwyn Lloyd, whom he had just met in Manila, "encouraged we should not give up hope on rebellious forces now principally in Celebes (Sulawesi)." Again, it was, "You guys should keep fighting."

Although it was now obvious to all that the United States and Britain were supporting the subversion, official U.S. policy was that there was no direct support, although Washington could not control American mercenaries who might be helping the rebels. This story was blown to bits on May 18, 1958, when a U.S. B-26, after bombing a port in Ambon, a city in the Moluccas, including some severe "collateral damage" on civilian areas, was shot down by Indonesian anti-aircraft. The

pilot, Allen L. Pope, an American, was carrying U.S. military credentials and passes to Clark Air Force Base in the Philippines. He admitted that he and others had been assigned to the CIA by the U.S. military.

President Sukarno purposely did not allow this exposure of U.S. operations to be leaked to the press, at least as far as was possible, and did not make a diplomatic stink. But, the operation was blown, and within two days, Dulles was talking about the terrible civil war in Indonesia, his hopes for peace, and the need to prevent outside interference. By August, the United States was providing military assistance to Jakarta, hoping Indonesia would not become dependent on the Soviets.

Pope was tried and condemned to death. When President Kennedy sent brother Robert to Jakarta in 1962, he arranged for Pope's release, while also pledging U.S. support for the return of Irian Jaya from the Dutch.

These are the memories provoked by U.S. Congressmen demanding autonomy for integral parts of the Indonesian Republic, and demands that the military relinquish its constitutional role in Indonesian society. The United States failed to support the aspirations of the Non-Aligned nations in the post-war era, and the current descent into global chaos is the result. This time, Washington must provide leadership for nation-building, and not be London's bully once again.

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International Intelligence

Turkish press exposes Lord Avebury link to PKK

According to unidentified intelligence sources cited by the Turkish daily *Hurriyet* on July 15, British terrorist controller Lord Avebury is planning to meet Kurdish Workers Party (PKK) leader Abdullah Ocalan in Syria, in a bid to prevent the collapse of the drug-running terrorist group. According to the report, Kani Yilmaz, the PKK's chief political operative in Europe, has told Ocalan that Avebury, "the Chairman of the British Parliament Committee for Human Rights, has agreed to meet you. He will probably visit from Aug. 3-18. He has asked us to meet his expenses. So, we have paid him \$45,000. The amount is very high but he is a very important official. He wants you to discuss the visit with the Syrian government. He does not want to be seen as having arrived to hold talks only with you."

Lord Avebury and other British officials had earlier called for the creation of a Kurdish state in Iraq during the build-up for a new strike against Iraq last January, which provoked Turkish Deputy Prime Minister Bulent Ecevit to condemn Britain as the sole cause of every problem in the Mideast since World War I.

Sudanese Foreign Minister hits British 'bias'

Sudanese Foreign Minister Dr. Mustafa Othman, during a press conference on July 16 with Derek Fatchett, Britain's State Minister for Middle East and East Africa Affairs, asserted that the British cannot act as a fair mediator of peace in southern Sudan. "Britain is the country which bears most animosity to Sudan," he said, adding that "London does not qualify for being a neutral party for mediation in the southern Sudanese issue, because of its clear bias to the opposition and its continuous hosting of opposition elements and leaders of armed action, while it refuses to receive any government officials."

Fatchett has been posturing as the one who brought about the cease-fire in southern

Sudan in order to save the famine-stricken population. Othman, however, stated that the Sudanese government accepted the cease-fire "in response to the initiative of Kenyan President Daniel Arap Moi." Othman added that Britain "has been taking an extremist stance towards Khartoum, has been treating its government in a strange and brutal manner."

The three-month cease-fire with the Sudanese People's Liberation Army of John Garang began on July 14, in order to allow food and aid to get to famine-stricken populations in the areas he controls. As *EIR* documented last week, it has been Garang's forces, not the government, that have prevented aid from coming in, or have siphoned it off to supply SPLA troops.

Khmer Rouge, NGOs mar Cambodian elections

Cambodia's effort to hold general elections on July 26 has been flawed, but not by the government: The born-again democrats among the Khmer Rouge, Prince Norodom Ranariddh, and International Republican Institute darling Sam Rainsy have engaged in everything from race-baiting to armed attacks during the two-month election campaign. At the same time, the U.S. State Department, National Endowment for Democracy, and non-governmental organizations (NGOs), including Amnesty International and George Soros's Human Rights Watch, are loudly decrying the elections as "hopelessly flawed."

On July 18, suspected Khmer Rouge guerrillas, near the KR headquarters in Anglong Veng, opened fire on election officials, killing two and wounding one, and stole four ballot boxes. The campaign speeches of Ranariddh and Rainsy are peppered with racist references to Cambodia's ethnic Vietnamese minority, whom they derogate as *yuon*, a slur aimed to curry favor with demobilized Khmer Rouge troops. Rainsy, who heads the Sam Rainsy Party, and who is championed by the U.S. NGO apparatus and by France, used the term *yuon* 170 times during one rally in Pailin, a stronghold of former Khmer

Rouge leader Ieng Sari. Rainsy campaign leaflets proclaimed: "If you vote correctly, the *yuon* will go."

Jordan high court turns down Shubeilat appeal

Jordan's Court of Cassation, the nation's highest court, rejected the appeal presented by Islamic political figure Laith Shubeilat, to overturn his conviction for allegedly having instigated riots in the city of Ma'an earlier this year. In arguing its decision, the court said that Shubeilat had deliberately whipped up popular sentiment in a sermon at a mosque, prior to the riots; that he had sneaked into the mosque disguised; that he was accompanied by armed men, among other allegations. They said Shubeilat had spoken in his sermon, of Jordanian army mobilization on its borders with Iraq, as part of a U.S.-directed strike against Iraq.

Shubeilat's nine-month prison sentence was thus confirmed. He has been in jail since February, and therefore has little time left to serve. In addition, Jordanian sources say that they expect King Hussein to reiterate his pardon for Shubeilat. Shubeilat rejected the pardon in May, on grounds that it was unconstitutional, since the higher court had not yet ruled. Now, the pardon can be implemented, even against the will of the prisoner. King Hussein is currently at the Mayo Clinic in the United States, where he is undergoing treatment.

Flooding in East Europe compounds earlier damage

A new round of flooding has beset eastern Europe over mid-July, compounding the wide-spread damage from last summer, during heavy flooding in eastern Germany, Poland, and the Czech Republic. Although the floods then were extensive, the damage was actually the result of free-market "reforms" in the former communist countries, under which the state no longer maintained such services as flood-control infrastructure. Beginning in Romania in mid-June, several villages in the northwest were flooded, with

THAILAND has begun a program of sending young Thai military officers to China for 12 years of training. The plan was worked out by Thai Army Chief Chettha Thanajaro, who returned from an extended trip to China on June 27. The Thai officers will spend four years studying Chinese language, tradition, and culture with the Chinese army, one year at the Chinese Defense College, and seven years as military attachés at the Thai Embassy.

SPANISH ANTI-TERROR brigades struck at propaganda and fundraising fronts for the Basque separatist terror group, ETA, exposing a network of 200 "firms," posing as travel agencies, import and export firms, and publishing houses, in Spain, France, Cuba, Colombia, Mexico, Panama, and Venezuela. On July 15, Spanish police arrested 11 leaders of the publisher of ETA's mouthpiece, *Egin*, and closed four editorial offices and a printing shop.

JEFF KENNETT, premier of Victoria, Australia, whose Mont Pelerinite policies are destroying the state's economy, met for 30 minutes with Queen Elizabeth II at Buckingham Palace on July 16. He told press later that the Queen, who is the unelected Sovereign of Australia, is "a remarkable woman."

A EUROPEAN UNION delegation visited Iran on July 17-19 to move the relationship from "critical dialogue" to "constructive dialogue," according to the Iranian news service IRNA. The Austrian EU Presidency said that the talks are the "first substantive round of talks in the new process of dialogue with Iran," following the EU's decision to restore relations.

THE ROYAL ULSTER Constabulary and British Army in Northern Ireland have begun a crackdown on the Order of Orange and Loyalist paramilitaries, who were largely responsible for the 12-day-long violence that culminated in the bombing of a Protestant-Catholic household in Dumcree, which killed three boys.

several thousand inhabitants left homeless. In eastern Slovakia, very heavy and sudden rainfall destroyed an entire village, killing 17 people, and leaving 2,000 homeless. No improvements in flood control have been made in this region, which has been hit before.

In Poland, more than 2,000 hectares of land went under water when the Oder River swelled over its banks. None of the measures that were promised last year to improve flood control have been implemented. Even the dikes destroyed last year have not been restored, in many places. Many Poles in the farming villages have no money to rebuild their homes: The government doled out 3,000 zlotys to each family, which was not enough even for temporary repair of housing, never mind farm buildings. Roads remain unrepaired or washed out, and severe flood damage to electricity and freshwater supplies is unchanged from the last year in many parts of southwestern and southern Poland.

Chirac and Assad hail 'strategic partnership'

Syrian President Hafez al Assad, a long-time terrorist kingpin, made an unusual pilgrimage to Paris, on July 16, where his old friend, President Jacques Chirac, called for a "strategic partnership" between the two nations. Assad has not been to a European capital since 1976, when he met in Paris with then-Prime Minister Chirac. Syria's official press has placed great emphasis on Assad's trip, quoting Chirac, that the "relationship I established with Assad a long time ago is strong and confident." Since that time, Chirac has routinely used Assad to carry out various dirty jobs in the region.

Six weeks earlier, a Syrian military delegation was in Paris to arrange the possible purchase of non-offensive arms.

Meanwhile, two British warships made the first official port-of-call visit to Syria since 1950. The London *Times* quoted British Ambassador Basil Eastwood: "Our decision to send two of the most modern ships in the Royal Navy to visit Latakia is intended

to symbolize our determination to build a relationship of partnership between Syria and the United Kingdom." Britain broke relations with Syria in 1986, after discovering a Syrian-backed plot to blow up an Israeli civilian jet at Heathrow Airport. Relations were restored in 1990, when Syria agreed to join the Gulf War coalition against Iraq.

Cyprus-Russia missile deal aggravates area tensions

The announcement in Moscow on July 13, that Cypriot President Glafkos Clerides and Russian President Boris Yeltsin had reconfirmed plans to deploy S-300 surface-to-air missiles in Cyprus, could be used to heat up an already explosive situation. U.S. Secretary of State Madeleine Albright had proposed that Clerides purchase short-range SA-15 missiles rather than the S-300s, to prevent a strong Turkish response, but Turkey rejected the idea.

Sources on Cyprus told *EIR* that Cypriots are greatly concerned that a Turkish-Greek conflict could break out, since Cyprus has a military treaty with Greece. Clerides, however, seems to be trying to maintain calm; he has postponed delivery of the missiles to November, in hopes that progress would be made toward reunification, through federation, or towards demilitarization, and has pledged he would give up the deal, if such progress were made. He is expected to continue postponing delivery, as long as possible.

According to the Turkish daily *Hurriyet*, Turkish military aircraft have been conducting attack exercises aimed at being able to knock out Russian S-300 anti-aircraft systems. And, although the Israeli government issued a denial, reports have appeared in the Israeli press, that Israel has made reconnaissance flights over Cyprus to photograph possible missile sites.

Further indicating the level of tension, Iran's Ambassador to Turkey Mohammad Hussein Lavasani on July 15 expressed his country's concern over the latest reports of suspicious movements on the part of Israel inside Turkey, near Iran's border.

Turning the tables: Starr is now under investigation

by Edward Spannaus

Independent inquisitor Kenneth Starr is now facing at least two separate investigations concerning leaks from his office to the news media; it is now a possibility that he and others in his office could be held in contempt of court or even jailed, if they are found to have illegally disclosed grand jury information.

"It's a nightmare," a former independent counsel, Michael Zeldin, told the *New York Daily News*. "You can't imagine a worst-case scenario for a prosecutor than to have this happen."

If Starr or his deputies are found to have illegally disclosed grand jury information, the consequences could be very serious, said Randy Jones, the president of the National Bar Association, on CNN's "Burden of Proof" on July 22. "He could be put in jail; he could be fined; he could be taken off the investigation."

Former U.S. Attorney Henry Hudson, one of Starr's staunchest defenders, had to agree. "It's serious," Hudson said on CNN. "It's serious for Ken Starr because someone could go to jail if [the judge] finds they're in contempt. Don't think they will, but they could."

Starr's admissions

The situation which is now coming to a head, has been building up for many months — going back to last February, when President Clinton's lawyer David Kendall filed a complaint against Starr with Judge Norma Holloway Johnson, the chief judge of the U.S. District Court in Washington, who supervises Starr's grand jury. Around that same time, Monica Lewinsky's lawyers filed a complaint with the Justice Department.

In a letter to Kendall, Starr called Kendall's complaint "strange and inappropriate," accused the White House of con-

ducting "an orchestrated plan to deflect and distract" his investigation, and he protested: "From the beginning, I have made the prohibition of leaks a principal priority of the Office. It is a firing offense, as well as one that leads to criminal prosecution."

That was February. On April 15, Starr was interviewed by editor Steve Brill. As Brill later wrote in his "Pressgate" article, Starr was disappointed with Brill's insistence that the interview *not* be off the record or on background. Describing the interview, Brill says he asked Starr a series of questions about discussions that Starr or his deputies may have had with reporters. "I make clear," Brill wrote, "that these questions are based not only on the obvious fact that many of the stories about the investigation seem to have been only able to have come from his office, but also on what reporters or editors at six different news organizations have told me and, in three cases, on documents I have seen naming his office as a source for their reporting about the Lewinsky allegations."

Brill reported that Starr acknowledged that he had often talked to various reporters without allowing his name to be used, and that his chief deputy in Washington, Jackie Bennett, had been actively involved in briefing reporters, particularly after the Lewinsky story broke. "I have talked to reporters on background on some occasions," Starr told Brill, "but Jackie has been the primary person involved in that. He has spent much of his time talking to reporters."

During May, a similar story was told by author Dan Moldea, who described a conversation he had with Hickman Ewing, Starr's top deputy in Little Rock, Arkansas. Ewing told Moldea that the Office of Independent Counsel (OIC) talks freely with reporters, including providing information which is not on the public record. Moldea was told by Ewing that this information is provided to approved reporters on

an off-the-record basis. As to who “approves” the reporters, Ewing said that it is Starr himself who decides which reporters get the leaks.

It is not known whether Moldea’s account had any direct influence on the probe now under way. But it is reported that Brill’s account of his interview with Starr definitely did have an impact; indeed, some reporters say that Judge Johnson was incensed by Starr’s admissions of providing background briefings to reporters.

The matter came to light on July 21, when Starr and lawyers from his office, plus the President’s lawyers and others, all appeared for a closed-door hearing in the U.S. Court of Appeals, two floors above where Starr’s grand jury was interrogating Secret Service agents.

The story that emerged is this: Chief Judge Johnson had recently ordered that Starr show cause why he should not be found in contempt of court for violations of grand jury secrecy. The court ordered a hearing, at which Starr and others from the OIC could be questioned, under oath, by the President’s lawyers; moreover, the OIC was also directed to provide documents to Clinton’s lawyers. Alarmed at the judge’s ruling, Starr and the OIC then sought a “writ of prohibition” from the Appeals Court to stop the show-cause hearing, or at least to prevent them from having to hand over documents to the President’s attorneys.

Because the matter involves grand jury material, it is all under seal; news media organizations attempted to gain access to the July 21 proceedings, but could not.

D.C. Bar probe

The second investigation of Starr is reportedly under way in the District of Columbia Bar. *USA Today* reported that this investigation was initiated by the Bar Association of the District of Columbia; the paper said in its July 21 edition that Starr had been informed that both he and Jackie Bennett were under investigation. *EIR* cannot confirm the accuracy of that report, but we were told the following, by sources knowledgeable as to how such an action would be taken. Under standard procedures, a complaint would be referred to the Bar Counsel, which operates under the auspices of the D.C. Court of Appeals—the appellate court for the District of Columbia Superior Court—which is different than the Federal courts in Washington. Since Starr is admitted to the bar in the District of Columbia, he is therefore subject to the rules of conduct of the D.C. Bar, which are incorporated in local court rules.

Meanwhile, *Newsweek* has reported that Attorney General Janet Reno wants a Justice Department investigation of Starr’s leaks to the news media. *Newsweek* says that “Reno may soon notify Johnson in a sealed court filing of her intention to start her own probe—and has alerted Starr’s office as well.” Reno has been sitting on complaints about Starr’s leaks for months, and up to this point, whenever asked, has indicated that the DOJ is deferring to Judge Johnson before taking any action.

Beyond that, there is also an investigation of the witness-tampering allegations involving Starr’s key Whitewater witness, David Hale. These involve possible payments and other consideration provided to Hale by agents of the *American Spectator* and foundations funded by Richard Mellon Scaife. Starr has acknowledged that there were “FBI-supervised contacts” involving Hale and anti-Clinton operatives. The witness-tampering allegations are now being probed by Michael Shaheen, the former head of the Justice Department’s Office of Professional Responsibility.

Secret Service testimony

All this is going on while Starr’s public standing is sinking to new lows, because of his handling of the Secret Service issue and his efforts to penetrate President Clinton’s inner screen of security protection.

On July 16, the U.S. Court of Appeals in Washington refused to reconsider its ruling ordering U.S. Secret Service agents to testify before Starr’s grand jury. This was despite extensive evidence and affidavits submitted by the Secret Service, and from former Secret Service agents who were present during assassinations or assassination attempts, demonstrating that forcing Secret Service agents to testify would inevitably damage the relationship of trust between Presidents and their protective agents, and that this would eventually result in the assassination of a President.

One of Starr’s friends and colleagues, Judge Laurence Silberman, filed an extraordinary “concurring opinion,” in which he attacked President Clinton for having “declared war” on the independent counsel. It is not surprising that Silberman should jump to Starr’s defense, since both Silberman and Starr are reported to be regular participants in the “Get Clinton” salon at the Great Falls, Virginia home of Theodore and Barbara Olson. Theodore Olson is a long-time friend and law partner of Starr, and, in fact, Silberman walked the bride down the aisle at the Olsons’ wedding in May 1996.

After the Appeals Court ruling, the DOJ and the Secret Service immediately filed an emergency motion for a stay with the U.S. Supreme Court. Unfortunately, under the rules of the Supreme Court, this had to be filed with Chief Justice Rehnquist; it was Rehnquist who appointed David Sentelle to head the special panel that appoints independent counsels—the very panel which abruptly fired the previous independent counsel and appointed Starr to replace him in August 1994.

Shortly before noon on Friday, July 17, Rehnquist denied the motion for the stay. Even though his regular “Lewinsky” grand jury was not sitting that day, Starr quickly rushed three Secret Service agents before another grand jury to take their testimony. During the week of July 20, Starr brought more of the agents, including Larry Cockell, the now-reassigned head of the President’s personal security detail, before the grand jury to testify. Starr’s rush to cram in as much testimony as fast as possible, suggests that he may intend to submit his impeachment report to Congress by the end of the summer.

Trent Lott lies on China satellites

by Marsha Freeman

On July 14, Senate Majority Leader Trent Lott (R-Miss.) delivered remarks he characterized as an “interim report,” on the investigation into U.S. policy toward satellite exports for launch in China. Lott stated that “five major interim judgments” were made from material offered at 13 Senate hearings, held by four Senate committees, at which 32 witnesses testified.

In effect, Lott stated that the allegations made in the press, that military technology had been transferred to China during the launch of U.S.-built satellites, are true. These include charges that the Clinton administration’s export-control policies “have not protected sensitive U.S. technology,” that such technology has been transferred to China which received military benefit from U.S. satellite exports, and that the administration “has ignored overwhelming information regarding Chinese proliferation.”

In fact, Lott’s assertion that “we” have come to these judgments was contradicted by Intelligence Committee Chairman Richard Shelby (R-Ala.), who responded, “I have not made any preliminary judgments as to where we are at this time. We’ve only had six hearings.” The vice chairman of the Intelligence Committee, Robert Kerrey (D-Neb.), attacked the partisan nature of Lott’s accusation, saying it “endangers national security because it threatens our committee’s capacity to produce a bipartisan set of recommendations.”

It seems likely that Lott did not release his statement because he is concerned about threats to national security, or because he found evidence of malfeasance by the administration. Lott is trying to give the Republicans a head start in Congressional elections in November, and a Presidential election two years later.

But, there is a broader policy fight. On April 28, in a hearing before the Joint Economic Committee, Commerce Undersecretary for Export Administration William Reinsch stated, “Some in the Congress and the media have apparently already decided that China is a committed adversary that we should treat the same way we treated the Soviet Union during the Cold War. Others, including the administration, believe that the old Cold War controls aimed at the Soviet Union are not relevant to new and more complex situations like that of China.”

Some Conservative Revolutionaries in the Congress do believe that China is run by the “butchers of Beijing.” Others

will use the China issue as any other that can be sensationalized, regardless of veracity, to try to destabilize the Presidency and the President. But Lott has stepped onto shaky ground. All of his “judgments” have been contradicted by witnesses, testifying under oath.

Lies by the barrel

Point one of Lott’s “interim judgment” is that “the Clinton administration’s export controls for satellites are wholly inadequate.” He cited testimony by a “senior official” of the Defense Technology Security Administration (DTSA) before the Committee on Governmental Affairs on June 25, stating that the “process to control the dual-use items has failed in its stated mission—to safeguard the national security of the United States.” This official, Peter Leitner, described the export-control regime as a “Potemkin Village” to “deceive” the Congress and “lull us all into a false sense of security.” He listed military technologies he suggested were decontrolled under the President Clinton.

However, on July 8, Principal Deputy Assistant Secretary of Defense Frank Miller, Leitner’s boss, testified before the same committee. When asked by Sen. Carl Levin (D-Mich.) about Leitner’s statements, Miller said, “I disagree with much of what was said in that testimony. I think that it was unfortunate that a number of issues were raised and confused.” Miller stated that “throughout that testimony, there were a number of serious charges that were put in front of the committee that I believe . . . the record will show, that facts will show, were without any substance whatsoever.”

Next, Lott cited the testimony of the General Accounting Office (GAO) before the Senate Intelligence Committee on June 10, which stated that the 1996 transfer of license authority for additional commercial satellites from the State Department to the Commerce Department “reduced the influence of the Defense Department.”

But the leadership of the Defense Department itself has a diametrically opposed view. In a hearing on June 18 of the International Security, Proliferation, and Federal Services Subcommittee of the Senate Committee on Governmental Affairs, Senator Levin raised the GAO issues with Jan Lodal, Principal Deputy Undersecretary of Defense for Policy. Lodal explained that changes made in satellite export policy in 1996 *strengthened* the DOD’s oversight, and that safeguards identified by the GAO “are mandatory under our ‘96 procedures,” but were not before.

On June 23, before House hearings, Undersecretary of Defense for Policy Walter Slocombe explained that the new policy guarantees DOD monitoring of satellite transport, preparation, and launch; and requires defense monitors to be present at every technical meeting.

Commerce Undersecretary Reinsch stated that before President Clinton’s 1996 changes, Commerce was “referring about 52% of our licenses for other agencies to review. Now we are referring between 92 and 95%.” With the changes, he

said, “we provided to the Defense Department something that they had wanted for 15 years: . . . to be able to review all [export] licenses.”

Take it up with Bush

In another attempt to make the case that “export controls are wholly inadequate,” Lott brought up the fact that there were three communications satellites launched from China where DOD monitors were not present. However, this charge, Lott should take up with George Bush.

On June 18, John Holum, Acting Undersecretary of State for Arms Control and International Security Affairs, presented a detailed history to the Government Affairs subcommittee on export-control policy regarding satellites. He explained that when the Clinton administration came into office in 1993, it inherited a set of amendments to the International Traffic and Arms Regulations prepared by the Bush administration.

The Bush policy, under pressure from Congress and the satellite industry, was to transfer from State to Commerce dual-use satellites that did not contain any one of nine military technologies. Under this policy, continued by Clinton administration, Commerce-licensed launches were not required to have monitors, and three of them did not.

At the hearing, Defense Deputy Undersecretary Lodal explained that “before the 1996 [Clinton] revision,” the three unmonitored launches, “were launches of purely commercial satellites that were licensed by Commerce.” But, “since 1996, monitoring by the U.S. government is required in all launches of commercial satellites, and this monitoring is provided by the DOD.” On June 23, this view was stated again in a hearing by DOD’s Slocombe.

Lott’s second “interim judgment” was that “sensitive technology related to satellite exports has been transferred to China.” This issue involves the investigation into a 1996 Long March rocket failure carrying a satellite built by Loral, and is what the *New York Times* used to kick off the China-satellite scandal in April. Without citing any specifics, Lott referred to assessments by “elements” of the State and Defense Departments, that China derived technical benefit from the investigation after the accident. These assessments have been countered by high-level DOD officials.

Lott claims that one proof of this assertion is the improved launch reliability of the Long March rocket since 1996. Members of Congress have derided the argument that “practice makes perfect,” or that the Chinese might have made improvements themselves, insisting that China must have gotten access to U.S. technology. But the history of successes and failures of U.S., Soviet, or other launch systems, proves that practice does, indeed, make perfect.

A July 17 press release by the Embassy of the People’s Republic of China reviewed launch services for foreign satellites performed by China Great Wall Industry. Following the 1996 launch failure, the Chinese aerospace industry “stepped

up its management regime, including the issuance of a 72-article provision on production control, a 28-article provision on quality control, and 5 go-no-go criteria to minimize and eliminate problems.”

A third “interim judgment” announced by Lott, is that “China has received military benefit from U.S. satellite exports.” Lott claims that there is “division within the Executive branch” on this issue, which is true if you count as “within the Executive branch,” classified reports from unnamed sources in the Pentagon, who express their disagreement with administration policy by leaking classified reports to anti-Clinton scribblers such as Bill Gertz of the *Washington Times*.

At a House hearing on May 7, Defense Undersecretary Slocombe was asked if any U.S. technology had found its way into Chinese missiles. Slocombe replied, “The ICBMs that are now deployed are, to the best of our knowledge . . . the same that [were] deployed five years ago. . . . There’s no evidence that any American technology has been incorporated into Chinese ICBMs.”

During a June 23 hearing, Slocombe was asked about the similarities and differences between launching satellites and launching missiles. He explained, as an example, that the requirements for multiple satellite deployments, which the Chinese have done for a U.S. satellite manufacturer, allows for a “wide margin of error.” “By contrast,” he said, “the objective of a MIRV [multiple re-entry] system is extremely accurate reentry. . . . The idea that there’s a one-for-one correlation, and that you could use the civil space program as the driving force for a missile program, is simply not right.”

Lott’s final “interim judgment” is that the “administration has ignored overwhelming information regarding Chinese proliferation,” to protect China from sanctions. Lott referenced testimony on June 11 before the Senate Foreign Relations Committee, by a former director of the Nonproliferation Center of the CIA who stated that the administration has used “almost any measure” to block the judgment that China had shipped missiles to Pakistan.

Testifying on June 18, DTSA Director David Tarbell described how disagreements within government agencies are worked out, and that individual “facts” do not make a policy. “I have overruled my analysts plenty of times, because this is a balance of judgment that I’m paid for,” he said. “Occasionally my analysts will bring forth a case that they believe has policy merit, and has policy considerations around it, that frankly don’t. . . . Many times . . . I will make a judgment that says this is just not important enough at this point in time to bring up the line [of appeal for a specific export license] and I balance that against other views within the department.”

While Lott and others have tried to cloak these accusations in all manner of technical mumbo-jumbo, the record shows that there is no substance to the charges. Had Lott honestly assessed the testimony of the hearings in the Senate, he would have to admit as much.

Regulation called threat to derivatives markets

On July 17, the House Banking Committee held the first of two hearings on the Commodities Futures Trading Commission's May 7 call for a review of its regulatory approach to over-the-counter derivatives trading. The atmosphere of the hearing treated this issue as a "turf war," since the Treasury, the Federal Reserve, and the Securities and Exchange Commission have all come out opposed to the CFTC's proposal. But, the real fear of deregulation advocates was expressed by committee chairman Jim Leach (R-Iowa), who warned that if the CFTC reclassifies certain derivatives products, which, he said, is implied in the proposal, this will bring "into question their legal status and regulatory treatment." An effort to steer the market "to fit regulation could, in the judgment of Chairman Greenspan, create systemic shock in the marketplace and precipitate the very types of financial crises that the CFTC is established to avoid." (Unlike futures contracts, swaps are not traded on exchanges and therefore are not regulated by the CFTC.)

An opposite view was expressed by Maurice Hinchey (D-N.Y.), who said, "We should have as much information about these markets" as possible. "There's a lot we don't know about these markets," especially in view of their rapid growth of the last few years. He said that some call the CFTC's proposal a "grab for power," but, because the market has changed so much over the last five years, we should instead be concerned if the CFTC were *not* calling for a review of its regulatory approach.

Leach got support from bankers who were there to testify. Mark Griffin of J.P. Morgan complained that statements by the CFTC "have under-

mined the legal certainty that has been the foundation for swap activity." He said, "If swaps are defined as futures, then many swaps would be subject to the Exchange Trading requirement." But, because they are not listed on any exchange, "if the CFTC successfully asserts jurisdiction, these swaps may no longer be valid, binding contracts."

Senate GOP unveils its health care plan

On July 15, a Senate Republican task force, led by Don Nickles (R-Okla.), released its answer to Democratic demands for a patients' bill of rights. The Senate GOP proposal is similar to that of their House counterparts, and includes a "patients' bill of rights" that focusses on patient "choice," health care research, and establishes an appeals process for cases in which an insurance provider denies care. Like the House GOP proposal, it does not allow lawsuits against health maintenance organizations, a key component of the Democrats' proposals.

Nickles castigated the Democratic alternative in ideological terms, saying that "it would greatly increase costs, reduce access," thus leading more people to join the ranks of the uninsured, and "would increase the bureaucracy and regulation by unbelievable leaps and bounds."

The Senate plan also includes medical savings accounts because, as Phil Gramm (R-Tex.) said, "there's only one approach that enables us to control cost, and that approach is the health maintenance organization." Gramm said that medical savings accounts give people an incentive to be "cost conscious," as well as giving them the "right to choose."

The next day, Senate Minority

Leader Tom Daschle (D-S.D.) jokingly told reporters, "I think you can safely say that a patients' bill of rights will pass," now that the Republicans have adopted the title of the Democratic bill for their bill. "The question is," he said, "what falls below the title." Daschle said that the important issues are why the Republican bill only covers 48 million people, and holding health insurers "as accountable as doctors and nurses and hospitals." He said that there's a "sea change in the attitude" of Republicans. Six months ago they were declaring war on patients' rights legislation. "Now," he said, "they're partners in peace in moving this legislation forward. The problem is, we want more than just a shell. We want a real bill."

Appropriations bills in procedural wrangling

Work on the 13 annual spending bills continued amid increased tensions. The House passed the Treasury-Postal Service bill on July 16, and the Appropriations Committee reported out the Labor-Health and Human Services bill and the Commerce, Justice, State Department and the Judiciary bill. The Senate passed the Agriculture Appropriations bill on July 16 and the Veterans Administration-Housing and Urban Development-Independent Agencies bill on July 17. The Senate also began work on the Legislative Branch and the Commerce-Justice-State-Judiciary bills on July 20.

Of all of these, the Treasury-Postal Service bill was the most difficult. The House GOP leadership had originally tried to bring the bill up on June 25, but a procedural vote failed in a dispute over legislating policy in an appropriations bill. The bill was brought

back to the floor under a new rule of debate on July 15, which didn't solve the dispute. Finally, the contested language that led to the failed vote on June 25 was not protected by the rule, and large chunks of the bill fell under points of order that they were in violation of House rules, including the \$2.25 billion earmarked for dealing with the year 2000 computer problem within the Federal government.

The VA-HUD bill faces a similar problem, in that the House GOP leadership has attached to its version a 300-page public housing reform bill, which, even if it survives, faces a veto threat from President Clinton.

Also facing a veto threat is the Labor-HHS bill. President Clinton has complained that the bill contains \$2 billion less for education than the administration had requested. "On balance," Clinton said, "this bill fails to provide young Americans with the schooling and training that will be essential to their success as working adults."

IMF to get partial funding, says Arney

On July 20, House Majority Leader Dick Arney (R-Tex.) told a press conference that the International Monetary Fund (IMF) is so hated that the full \$18 billion requested by the Clinton administration would be impossible to pass, and that only the \$3.4 billion currently in the Foreign Operations appropriations bill will go through.

Only a few days earlier, Arney had predicted that the IMF would "pretty much get as much money as they [the IMF] are looking for with as little accountability as they desire." Asked what had changed his mind, he

said, "What has happened, is I have reassessed the strength of the coalition of people who are insisting that there be an honest debate based on open disclosure of what the IMF actually does, and I've realized that that population of people has increased. And it is a significant part of the electorate and, frankly, is more strong in the Senate than what I had thought it was."

Joining Arney at the press conference was Joint Economic Committee Chairman Jim Saxton (R-N.J.), who reported on his recent trip to South Korea on behalf of the Armed Services Committee, where he had a chance to talk to the Finance Minister and others about the economic crisis. One of the things he found, he said, is that the IMF is hated there, because small businesses can no longer operate because of the IMF's conditionalities. "So, in that country, at least, which is where I had some first-hand experience, the American image as the leader—they perceive us as the leader of the IMF—has been somewhat diminished by the fact that things have not gone well, in the South Korean average worker's opinion, because of the IMF policy.

"So, when American members of Congress and other decision-makers here on Capitol Hill get to understand some of these facts . . . there's been a real shift in sentiment."

New CBO forecast heats up budget wars

A new forecast released by the Congressional Budget Office on July 15, which projects Federal budget surpluses of as much as \$520 billion over the next five years, and possibly \$1 trillion more in the five years after that,

has re-ignited the battle over what to do with the alleged surplus. On July 16, House Speaker Newt Gingrich (R-Ga.) and House Budget Committee Chairman John Kasich (R-Ohio) seized on the CBO forecast as an opportunity to push for new tax cuts. Gingrich proposed, in a speech at the libertarian Cato Institute, that \$650 billion ought to be used for strengthening Social Security, and the remainder for cuts in the capital gains tax, phasing out the estate tax, and eliminating the so-called marriage penalty.

Democrats are cautious on tax cuts, however. Senate Minority Leader Tom Daschle (D-S.D.) told the press that "as long as Social Security trust funds are on the table, we have no business talking about deep tax cuts that aren't paid for in any other way." House Minority Leader Richard Gephardt (D-Mo.) accused the GOP of "raiding" the surplus so that they can give tax cuts to their wealthy supporters.

The issue is not a simple one for Republicans, however. The House and Senate have been in negotiations over the budget resolution, and the House version includes \$100 billion in tax cuts, whereas the Senate has only approved \$30 billion. The day before the CBO projections were released, Sens. John Chafee (R-R.I.) and James Jeffords (R-Vt.) released a letter to Senate Budget Committee Chairman Pete Domenici (R-N.M.), calling for caution on tax and budget cuts. However, indications were that the new CBO figures might be weakening Senate resistance to more tax cuts.

Little noticed amid all of this were the figures inserted into the *Congressional Record* on July 15 by Sen. Jesse Helms (R-N.C.), showing that the public debt of the United States has increased since July 15, 1997 by more than \$150 billion.

Court denies Billington 'habeas corpus' motion

In a terse, one paragraph, unpublished decision on July 16, the U.S. Court of Appeals for the Fourth Circuit dismissed Michael Billington's appeal and denied him *habeas corpus* relief. Billington will appeal the corrupt decision within 60 days to the U.S. Supreme Court. He is presently serving a 77-year sentence in Virginia for alleged securities fraud violations. The history of the case makes clear, however, that Billington's only "crime" was his association with Lyndon LaRouche and his effort to seek vindication for LaRouche and his associates through the notoriously barbaric Virginia court system.

Billington, along with LaRouche and five others, was railroaded in the 1988 Alexandria, Virginia Federal court. While Billington was still serving his Federal sentence, Virginia's Attorney General Mary Sue Terry sought to put him in jail for 90 years, on the same charges.

State Judge Clifford Weckstein attempted to have Billington give up his right to a jury trial for a bench trial, which would have guaranteed a guilty verdict and light sentence. When Billington refused the deal, his lawyer, Brian Gettings, insisted that Billington was a deranged LaRouche fanatic, and sought multiple psychiatric exams and, ultimately, Billington's confinement in a state mental hospital. This bizarre proceeding, played out in the media just before jury selection, featured Billington's own attorney claiming that his client was a member of a criminal cult. The court refused Billington's request to change lawyers.

Gettings prevented Billington from testifying in his own defense, continuing to claim that Billington was crazy despite the fact that the psychiatrist found Billington perfectly sane. Judge Weckstein imposed the full jury sentence because Billington insisted on his right to jury trial.

Billington has sought state and Federal relief through *habeas* proceedings. His petition demonstrated massive withholding of exculpatory evidence by prosecutors, in addition to the violation of his right to counsel.

Federal Judge Richard Williams granted

a hearing on Billington's claims concerning his lawyer. During the discovery proceedings before Judge Williams, additional information emerged showing that prosecutors had coerced and manipulated their most significant witness into making charges of fraud. Judge Williams refused to consider this information, and, then, also dismissed Billington's claims against his lawyer, ruling that Billington's "zealous" devotion to LaRouche justified the actions of his attorney at trial. The Fourth Circuit's decision upholds Judge Williams's decision in the case.

Citizens try to repeal electricity dereg

A Massachusetts group called the Campaign for Fair Electric Rates is attempting to place a referendum on the November ballot to repeal the electricity deregulation plan that was passed by the legislature last November, and went into effect this spring. The deregulation, which has been a disaster everywhere it has been put into effect, allows "free competition" in marketing electricity to consumers.

According to Ed Kelly, who is the associate director and general counsel for the Campaign, they have collected more than 44,000 petition signatures for the ballot initiative. Under the current law, Kelly told *EIR*, there is a mandated 10% reduction in electric rates for the next seven years. But, if a customer leaves his utility and contracts with a power marketer, and that marketer can't deliver or goes bankrupt, the customer can only change back to the old utility by forgoing the discount, and being charged whatever the market or spot price is at that time. For low-income people, Kelly says, this could make electricity unaffordable. In addition, under deregulation, where there is no legal requirement to serve all customers, power marketers can triage whomever they consider a credit risk.

Mistakenly, the Campaign is calling the legal allowance, that the utilities can recover 100% of their costs that would become "stranded" at the market price for power, a "bailout." In fact, most of these costs are

investments in nuclear power plants, which costs were vastly inflated by senseless environmentalist delays and the high-interest rate regime of the 1980s.

Kelly also reported that there is a ballot drive in California to repeal its deregulation law, that has already collected more than 700,000 signatures.

Release of CIA-Contra drug report is delayed

A classified version of the second volume of the CIA's report dealing with allegations of agency involvement with crack cocaine and the Contras has been delivered to Congress, and Sen. John Kerry (D-Mass.) is urging that the entire report be released to the public.

According to the *New York Times* and Associated Press, the report states that the CIA had received reports of drug trafficking involving about 50 Contras, and it continued to work with about two dozen of them despite the reports.

The *New York Times* says that many of the allegations in the second volume "track closely with charges that first surfaced in a 1987 Senate investigation." What the *Times* does not say is that the 1987 investigation, conducted by a committee that Kerry chaired, found that officials associated with Oliver North and others in the White House National Security Council Contra program were dealing with known drug traffickers.

Crime alert out for fugitive Bush partner

The Voice of America has issued "International Crime Alerts" for an indicted fugitive from justice, a longtime partner of former President George Bush's son Jeb, who is making a second run as Florida governor. Wanted bulletins for Miguel Recarey have been posted on the Internet by the Voice of America/United States Information Service.

Recarey headed America's largest health maintenance organization, International Medical Centers (IMC), in Miami. Jeb

Bush helped Recarey take a vast illegal fortune from the Department of Health and Human Services. Recarey paid Jeb at least \$75,000 for his intercession with the government. When George Bush was running the illegal Contra resupply operations, Recarey helped launder money to the Contras through Miami.

The IMC building was owned by Jeb Bush's business partner Camilo Padreda, who later pled guilty to fraud against the Department of Housing and Urban Development. When IMC collapsed, with \$300 million missing, Recarey was indicted for fraud, wiretapping, and other crimes. He fled the country, showing up in Venezuela, later in Spain, always to be protected by former President George Bush and his networks. Spain turned down a 1995 extradition request from the Clinton administration.

Egypt asks Wolf for freedom from meddlers

U.S. Rep. Frank Wolf (R-Va.), a leading co-sponsor of the Freedom from Religious Persecution Act, returned from a July "fact-finding" trip to Egypt, ostensibly to investigate the treatment of the Coptic Christians, soundly rebuffed by the victims he sought to defend. Wolf's visit came just as Egypt was repairing a three-year-long estrangement with its southern neighbor, Sudan, one of the original targets for destabilization under Wolf's proposed legislation.

Emerging from a meeting between President Hosni Mubarak and Congressman Wolf, Presidential Adviser Dr. Osama Al-Baz told reporters: "The Congressman came to Egypt to see the conditions of Christians, not to investigate or question anybody. . . . We reject any intervention in this issue either on the part of governments, or parliamentary authorities, or non-governmental organizations (NGOs). We do not have a Christian minority; they are citizens who enjoy equal rights and duties with Muslims." He continued, "Christians in Egypt say that they do not need protection. Pope Shenouda III of Alexandria, representing the highest Coptic authority in Egypt, said that Egyptian Copts

are protected by Egypt's Muslims, government, and leadership."

While Wolf was in Cairo, Foreign Minister Amr Moussa was meeting in Washington with State Department and other officials to outline the countries' future "strategic relation." The contrast left the Egyptian public wondering for whose strategic interest Wolf is working.

U.S. mourns death of astronaut Alan Shepard

Alan Shepard, the first American to go into space, died on July 21, after a long illness. He was 74. On May 5, 1961, Shepard put his faith in the word of Wernher von Braun and his team at the Marshall Space Flight Center, that their Redstone rocket was ready to be "man-rated," and climbed into the Mercury capsule, which he had named "Freedom 7."

The success of Shepard's 15-minute, sub-orbital flight prompted President John F. Kennedy to announce 20 days later that, before the end of the decade, America would put a man on the Moon. While training for the first two-man Gemini mission in early 1964, Shepard was grounded by an inner ear ailment. In 1969, experimental surgery for his ear condition allowed him to be restored to full flight status, and in 1971, Shepard commanded the flight of Apollo 14 to the Moon. At a celebration in Huntsville, Alabama in 1985, to honor the German space pioneers, Shepard boasted that he had flown every rocket the German team had developed, starting with the Redstone, and ending with the Saturn V.

In a statement released on July 22, NASA Administrator Dan Goldin said, "The entire NASA family is deeply saddened by the passing of Alan Shepard. NASA has lost one of its greatest pioneers; America has lost a shining star." The National Space Society, founded by Wernher von Braun in 1974, also issued a statement. The Society's president, Shuttle astronaut Charlie Walker, said that Shepard succeeded in his first mission, "and did it with humor—humor that he later carried to the Moon along with a golf ball and club."

PRESIDENT CLINTON was the target of three Texas men arrested in an alleged assassination plot on July 1. Johnny Wise, Jack Grebe, and Oliver Emigh are being held without bond. A Federal informant in the case reportedly claimed the three suspects were tied to the "Republic of Texas" separatist group.

GOP CONGRESSMAN Dana Rohrabacher (Calif.) is spearheading an effort to raise \$1 million for "humanitarian" aid to the forces of Cambodia's Prince Ranariddh, which the Congressman's top aide, Al Santoli, called "democratic soldiers." In fact, these very forces had merged with the hard-line Khmer Rouge after their aborted coup attempt in July 1997. Santoli is also leading the effort to postpone Cambodia's elections, on behalf of the "democratic soldiers."

PHILADELPHIA'S transit strike was tentatively settled on July 10, pending a final ratification vote on July 24 by the Transport Workers Local 234. The strike lasted 40 days. The three-year contract reportedly calls for 3% annual raises, and will send the crucial issue of hiring of part-time workers with no benefits to an arbitrator.

NEW YORK CITY construction workers are planning more actions, a union leader told *EIR*, after the successful June demonstration of 30,000 hardhats against privatization. The demonstration, which coincided with the New York Building Trades Convention, so angered Gov. George Pataki (R), that he cancelled his engagement to speak at the convention.

PINOCCHIO PAULA JONES had plastic surgery on her nose on July 17, according to the *New York Post*. Informed sources report that the offending proboscis was growing with every passing press conference, and even the prosecutors were beginning to notice.

'Democracy,' IMF-style

Stanley Fischer, the deputy managing director of the International Monetary Fund, laid out the latest IMF-led \$22.6 billion "bailout" package for Russia, at a press conference in Washington, D.C. on July 13. If both houses of Russia's Parliament do not agree to the brutal austerity conditionalities demanded by the Fund, he said, "I see on the wire services that they say that the President has the right to do things by decree."

So much for "democracy."

This is the same IMF/World Bank which campaigns against "corruption" and "cronyism" in the developing sector. This is the crew that set up Transparency International, along with Britain's Prince Philip, shouting slogans about "transparency" and "democracy." But, as *EIR* has shown, TI's real intent is to force sovereign nations to submit to supranational domination and looting by the global financier oligarchy.

Lyndon H. LaRouche, Jr., in an October 1995 policy memorandum written for the 1996 Presidential election campaign, titled "The Blunder in U.S. National Security Policy," dissected the fraudulent call for "democracy," as it was emanating, at that time, from certain circles in the U.S. Department of Defense.

Contrary to the DOD's claim, democracy is *not* becoming stronger around the world. As the international financial and monetary system has been eroded, since the end of the Bretton Woods system in 1971, most nations have been subject to a one-world government's dictatorship, by the IMF and related institutions. "Under the rule of these institutions," LaRouche wrote, "virtually all nations, and their governments, have been subject to increasingly savage austerity measures. By the standards of practice of the insurance actuary, during the past quarter-century, the IMF and associated institutions have caused far more death than the Adolf Hitler regime did. The pattern has been, increasingly, that governments which balk at imposing such murderous policies on their nation's citizens, are overthrown by coups conducted on behalf of the IMF. No nation whose government adopts IMF

or World Bank 'conditionalities,' can be described as 'democratic' in any meaningful sense of the term."

During the past year, we have seen nation after nation fall under the IMF hatchet, from Indonesia to Russia to most of Ibero-America. In the United States, the majority of the Congress says—oh, so democratically—that we can no longer afford infrastructure, quality health care, and education. In Japan, the political elite is committing *seppuku*, savaging one of the world's most powerful industrial economies in order to prop up a hopelessly bankrupt banking system.

Under such conditions, real democracy cannot be sustained for long. As LaRouche wrote, democracy is no longer possible in most of the world today, and will not long continue, even vestigially, inside the United States itself—without early and drastic reversal of policies typified by House Speaker Newt Gingrich's "Contract on America."

The IMF's murderous regime, of course, is carried out under the banner of "free trade." But, as LaRouche pointed out, the concepts of "freedom" and "democracy" which are behind these IMF policies first appeared in Athens, circa 400 B.C., when the Democratic Party of that day "democratically" murdered Socrates, for the "crime" of questioning the wrong-headed axiomatic beliefs of the ruling oligarchy.

So, today, those who attack the policies of the IMF and World bank are labelled "anti-democratic." Those who attack the policy of using "free trade" as an instrument of genocide, are accused of being "authoritarian" or "communist." Yet, if you do not object to such a fascist notion of "democracy," you make yourself, in fact, a Nazi-like accomplice in that willful mass-murder which is the actuarially foreseeable consequence of the "free-trade" policy.

The issue before us today is not "democracy"; after all, Adolf Hitler was elected democratically in 1934. The issue is the defense of the republican nation-state, and the rights of its citizens to economic and cultural development. To that end, let us abolish the IMF, and replace it with an alliance of sovereign nations: a New Bretton Woods system.

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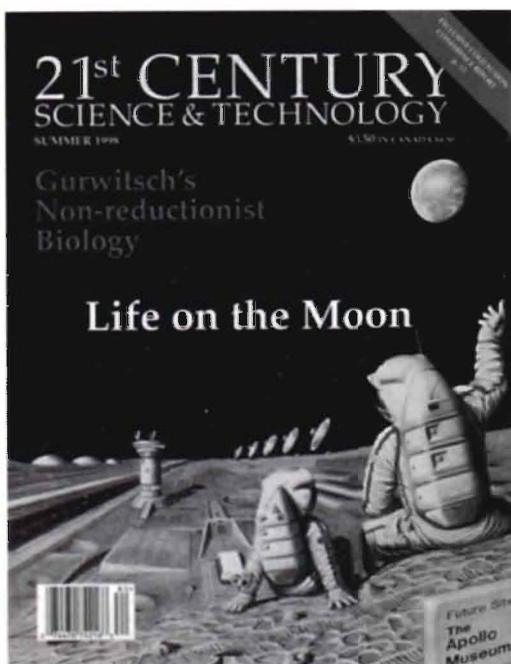
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