EIR

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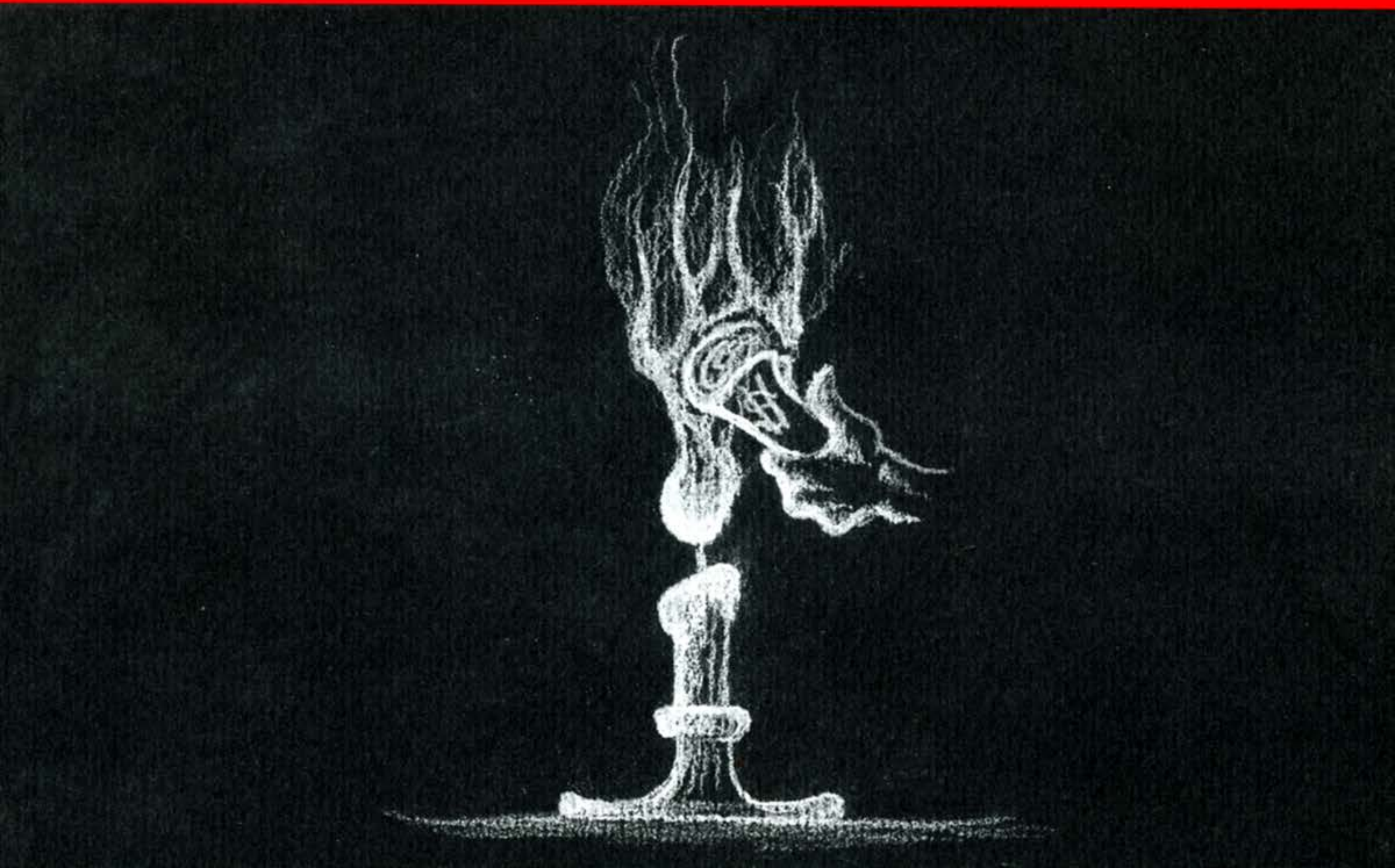
Exclusive: Moves Toward Asian Monetary Fund
New Terrorism Against Opponents of IMF
LaRouche: Wherein Clinton Failed

Deregulation Strikes: Buying Energy From Bush



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EIR

From the Associate Editor

This issue is chock-full of articles on the subject that is *EIR*'s pride and joy: the LaRouchean science of physical economy. Everything you will read herein is the opposite of what you learned in Economics 101, the opposite of what you read in the *Wall Street Journal*. We expose the utter bankruptcy of those who obliterate the physical economy of nations, in favor of "shareholders' values," and we demonstrate how a few powerful ideas, correctly understood and implemented, can change the course of history.

Lyndon H. LaRouche, Jr.'s article, "Wherein Clinton Failed," gives a powerful example of how a simple issue of physical economy—water for the arid lands of the Middle East—becomes a matter of utmost strategic significance. President Clinton pragmatically shifted the matter to the sidelines of the Camp David talks, thereby losing the opportunity for a political flanking maneuver that could have defeated the enemies of Mideast peace.

In other regions of the world, leaders are acting with considerably more sense. Leading our *Economics* section is an exclusive report by Kathy Wolfe on the drive toward an Asian Monetary Fund, in the wake of the May 6 Chiang Mai Initiative for regional integration. See especially her interview with Korean economist Dr. Yunjong Wang, for an eye-opening picture of how the global financial crisis is viewed in East Asia. LaRouche's ideas are circulating among the elites of the region, as they grapple with how to save their nations in the face of what they clearly see to be the bankruptcy of the current financial system.

In our *National Economy* section, Sara Madueño, *EIR*'s correspondent in Lima, Peru, presents a LaRouchean policy for the economic development of that nation, which possesses 18% of the world's mineral reserves, yet is presently desperately poor.

Finally, our *Feature* shows what happens to a nation—in this case, the United States—that ignores the requirements of physical economy. The deregulation of the electricity industry, the dismantling of the legislation pushed through by President Franklin D. Roosevelt in 1935, has led to blackouts and soaring electricity prices. You may not be surprised to learn that the friends of George W. Bush and Al Gore have had a great deal to do with this disaster.

Susan Welsh

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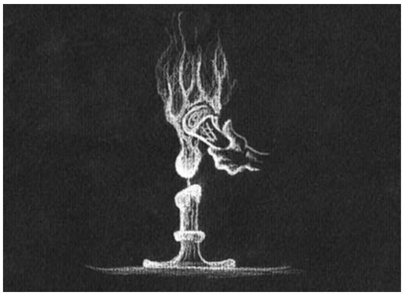
Feature



International

National

Asian Leaders: 'The Days of the Washington Consensus Are Over'

by Kathy Wolfe

Government officials and advisers in South Korea, Japan, China, and the Association of Southeast Asian Nations (ASEAN Plus 3) are quietly furious at the rubber-stamping of International Monetary Fund (IMF) policies by the Group of Eight Heads of State Summit in Okinawa, Japan on July 21-23, *EIR* has learned in several post-summit interviews. As a result, they have decided to move as fast as possible to create an independent Asian Monetary Fund (AMF), plus broader Asian capital markets, trading agreements, and even an Asian currency, to protect the region from what they see as a pending new global financial crisis.

In numerous meetings in Tokyo and Seoul, *EIR* also found openness among policymakers to the ideas of Lyndon LaRouche about replacing the existing bankrupt IMF-centered monetary system. As the crisis deepens, the idea of junking the IMF and creating a "New Bretton Woods" world monetary system as proposed by LaRouche, complementary to the new Asian Monetary Fund, should receive greater consideration.

Entire ministry divisions in Tokyo are being reorganized "to better expedite completion of the network of protective currency swaps" proposed at Chiang Mai, Thailand on May 6 by the 13 ASEAN Plus 3 nations' finance ministers, one Japanese official, who estimates that a swap pool of $200 billion will be needed, told *EIR*. South Korean President Kim Dae-jung's Aug. 6-7 reshuffle of his entire cabinet may be to the same ends, a Seoul official said. "We are deeply worried that a new global financial crisis will come again soon, and Asia must be prepared, no matter what we have to do," the Tokyo official added. If Wall Street crashes, today's IMF system "is not going to protect our region from a new contagion."

Chinese officials are also increasingly expressing support for the Chiang Mai Initiative and the AMF. The head of Beijing's State Council (Cabinet) Development Research Center, the president of the People's Bank of China, and the head of the China Construction Bank have all recently made speeches calling for increased cooperation with the Asian region and strengthened coordination to protect Asian currencies, according to press reports in Seoul.

"The crisis is here," as Dr. Yunjong Wang of the Korea Institute for International Economic Policy, who is in charge of Seoul's position papers for Chiang Mai and the AMF, told *EIR* (see interview below). The IMF and U.S. Treasury have wrecked Korea's economy, he warned, to the great profit of Western investors, who now control 30% of the Korean equity market, creating an enormous banking crisis in Seoul right now. "We have no choice but to move as fast as we can" to broaden the Chiang Mai Initiative, create a new $30-50 billion Asian Arrangement to Borrow, set up the AMF, and even create a new Asian currency unit of account to enable trade and production to continue, Dr. Wang said. "Many people thought the AMF was dead, but they were wrong." It must succeed now, "because the region can't stand a second shock. . . . Together, the ASEAN Plus 3 countries have more than $800 billion in foreign reserves," he stated, and will use them in self-defense.

"The days of the Washington Consensus are now over," as one leading Tokyo policymaker put it bluntly, referring to the free-trade line which the IMF, the Federal Reserve, and U.S. Treasury have been pushing down the throats of the world. "Globalization by the IMF and World Bank, for the IMF and World Bank, is ending, by which I mean the hierarchical globalization under which the IMF and United States have an agenda, and use globalization as a mechanism to further their own objectives and profits," he said.

The term "Washington consensus" referred originally to the globalization, privatization, and market liberalization imposed by the IMF and U.S. Treasury on Latin America after its 1980s debt crisis. The U.S. and IMF later insisted this also be applied to Russia and Eastern Europe, claiming that, with the fall of the Berlin Wall in 1989, such "free market fundamentalism" had been proven superior to all other economic theories. The IMF then attempted to impose this on Asia during 1997-99.

Stop the Hedge Funds

Many officials were irate at the July 21 Okinawa Summit Group of Seven (the G-8 less Russia) Statement on the World Economy, which says that "strengthening the international financial architecture" means simply "strengthening the IMF" to make it play more and more of a "central role" as world economic dictator. This is followed by Section 8 of the communiqué, which has no fewer than six points calling for "strengthening IMF surveillance" and the like. Japanese officials privately showed *EIR* phrases in the communiqué where Tokyo had tried to stress the dangers of global hot-money flows "in light of the increasing size and importance of private capital markets." In the end, however, they complained that their efforts "were hard to notice" under the weight of pro-IMF wording insisted upon by the U.S. and British delegations.

Asian financial officials are especially scrambling to protect the region from clause 13 in the statement, which flatly announces that the G-7 "*did not recommend direct regulation*" of "highly leveraged institutions (HLIs)," i.e., George Soros-type hedge funds, hot-money capital flows, and offshore financial centers. These are the very speculative global financier mechanisms that caused the 1997 crisis.

"This statement was made entirely on the insistence of the United States," one Japanese official told *EIR*. "The Asian finance ministers meeting in Fukuoka on July 6 advised the G-7 finance ministers meeting on July 7 that regulation of these speculative funds was urgent, and Japan brought this message into the Okinawa leaders' summit," he revealed. "France, Germany, and most of the European leaders agreed, but the U.S. delegation, backed up by the U.K., was violently against any regulation of its hedge funds. The U.S. position was: 'These funds are on our territory, we do not wish to regulate them, and there is nothing you can do.' "

Korean and Japanese economists were also shocked by Fed Chairman Alan Greenspan's July 12 speech to the New York Council on Foreign Relations conference on "The Next Financial Crisis," where he stated that the "new international financial architecture," which the West has promised Asia it would create since 1997, is already here—and it is based upon *expanded use* of derivatives and other hot-money hedge fund "financial products." "The availability of a wider array of financial instruments [which] has allowed the development of more complex hedging strategies" and "the ability of derivatives and other modern financial products to unbundle complex risks," Greenspan said, "can aptly be described as a new international financial system." Asia had a crisis in 1997, and the United States did not, Greenspan lied, because U.S. financial institutions hold mountains of derivatives to hedge against global capital gyrations, while backward Asian financial systems had no such "spare tire" to cushion the blow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EIR誌 이코노미스트 울프씨 방한

"한·중·일 3개국과 동남아연합(ASEAN)이 서로 협력한다면 미국과 유럽연합에 버금가는 새로운 수퍼파워(super power)를 탄생시킬 수 있다. 지난 5월 태국 치앙마이에서 열린 아시아개발은행(ADB) 연차총회에서 이들 13개국이 모여 외환위기 발생시 서로 필요한 외환을 지원하는 통화스와프(교환)를 하기로 합의한 것은 그 첫 걸음이다."

새로운 국제통화기구의 설립 필요성을 홍보하기 위해 한국과 일본 등 아시아 국가들을 방문 중인 케시 울프(Kathy Wolfe)는 2일 조선일보와의 인터뷰에서 이렇게 말했다. 그는 EIR(Executive Intelligence Review·워싱턴에서 발간되는 경제주간지)의 아시아담당 이코노미스트로 한국말이 통하는 몇 안 되는 한국전문가다.

—아시아통화기금(AMF)의 설립에 대한 견해 및 전망은?

"치앙마이에서의 13개국 합의는 미국과 유럽국가들이 좋아하든 싫어하든 AMF로 가는 발판을 마련한 것이다. AMF는 아시아적 특성을 살리면서 세계적 통화기구로의 확대를 지향해 나가야 한다."

"AMF 만들어 IMF 대체해야"

한국 통일에도 도움될 것

—AMF와 IMF와의 관계는?

"현재 IMF는 위기국가들로부터 신뢰를 잃고 있는 것은 … 론 가용 …)기금도 거의 고갈상태다. 따라서 AM… F의 보 … 아니라 대체기구가 돼야 할 것이다. …

An interview with EIR *correspondent Kathy Wolfe, who attended the Okinawa summit,and had extensive meetings in Tokyo and Seoul in support of the Asian Monetary Fund, appeared in the South Korean daily* Chosun Ilbo *on Aug. 3 (p. 12). The headline reads, "EIR Visits Korea," and the blow-up quote from Wolfe reads, "We must create the AMF to replace the IMF."*

when speculators organized a run on Asian currencies. Rather than regulate global hot money and the hedge funds, he concluded, Asian markets must embrace them on a whole new scale.

"I read the speech and it is complete nonsense," one Korean economist told *EIR*. "He never mentions that it was precisely the huge problems which derivatives cause, which forced the Fed to spend over $50 billion to bail out the Long Term Capital Management [LTCM] hedge fund in 1998."

"The world is suffering under global speculation in which the volume of private hot-money capital changing hands in any single day is dwarfing the size of existing government institutions by two orders of magnitude," a former Japanese minister said. "The volume of global foreign exchange trading in a week is larger than the entire amount of world imports and exports combined in a year. Greenspan says they don't need further regulation—he told the House Banking Committee on July 25 that existing U.S. government bank regulatory agencies are already regulating the financial institutions concerned. This is insane. He's simply arguing to let the speculation continue because it's profitable for them—just as more LTCMs are about to occur. We call it the 'cockroach theory' of international finance: Where you see one LTCM-type bankruptcy, there are a dozen other such cases under the floor boards which you don't see, waiting to go bankrupt and explode to the surface."

The LaRouche 'Chess Piece'

ASEAN Plus 3 finance ministries are planning to create a "formal pressure group" of Asian, Ibero-American, and African finance ministers "to step up demands on the U.S. to regulate these hot-money flows," one official said.

In general, officials indicated that they are looking for ways to show that Asia has tried to cooperate with the IMF, but the IMF hasn't played fair, so now it is reasonable for Asian players to create their own chessboard. "We've demanded more disclosure on short-term capital; we can't get it. We've demanded a larger share of IMF quotas and IMF powers for Asia; we didn't get it. We asked for help early in the 1997 crisis; we didn't get it. If this continues, then our only reasonable alternative is to create an Asian Monetary Fund," as one Finance Ministry official put it.

Playing the LaRouche "chess piece" is also coming under consideration. At the Okinawa summit, this author was called on at three different press conferences by the Japanese Foreign Ministry spokesman and given ample time to criticize the IMF, promote LaRouche's proposal for a New Bretton Woods monetary system, and ask what results Japan was getting in raising Asian concerns about a new global financial crisis. "We can't state openly that we're against the IMF, but I must tell you that Mr. LaRouche's ideas are very useful to us," as one Japanese official put it privately.

Seoul's leading conservative daily, *Chosun Ilbo,* ran an interview with this author on Aug. 3, entitled "EIR Visits Korea," featuring a picture caption: "The AMF Must Be Created in Order To Replace the IMF."

"*EIR* is very well known in Korea," a Korean economist commented. "I have asked around, and almost everyone here agrees with Mr. LaRouche's view on the IMF, but they are afraid to say this publicly because the IMF dismisses *EIR*. Look, we've all talked to the IMF about *EIR* and your arguments against their programs. But the IMF complains that *EIR* doesn't have enough recognized name economists with PhDs to prove your case against their programs with proper academic statistical studies."

A former executive director of the Bank of Japan, Japan's former director at the World Bank, and two prominent South Korean government-funded economists have recently signed the call by the Ad Hoc Committee for a New Bretton Woods, initiated by LaRouche's wife, Helga Zepp-LaRouche.

Interview: Yunjong Wang

'The Crisis Is Here'

Dr. Yunjong Wang is Director of the Department of International Macroeconomics and Finance at the Korea Institute for International Economic Policy (KIEP), a quasi-governmental think-tank in Seoul. Dr. Wang is preparing the South Korean proposals for the Chiang Mai Initiative, the Asian Monetary Fund (AMF), and further Asian regional financial and economic agreements. The Chiang Mai Initiative stems from meetings in Chiang Mai, Thailand in early May, between the ten-member Association of Southeast Asian Nations (ASEAN) and Japan, Korea, and China, which has since become known as ASEAN Plus 3.

Dr. Wang spoke on Aug. 3 in Seoul with EIR*'s Kathy Wolfe.*

EIR: Where do the Chiang Mai Initiative and the Asian Monetary Fund stand today?

Dr. Wang: When the 1997 crisis hit Asia, there were many different proposals on what to do, alternatives to the traditional harsh IMF [International Monetary Fund] cure; for example, Japan proposed the Asian Monetary Fund, and Malaysia had some ideas. But these were all flatly turned down by the IMF and the U.S. Treasury, regardless of merit. Unfortunately, Japan did not have enough power in the G-7, the Asian nations were not as strong as the West in the IMF before the crisis, and the crisis made us even weaker. Also, China, at the time, would not support an Asian fund. Pretty soon, Indonesia, Thailand, and South Korea were under IMF programs and could not buck the IMF at all. We had no regional unity at that time, so the Asian nations were powerless, and the IMF did as it pleased.

Now, however, we've pulled ourselves up a bit, so we have a little more leverage, and although the Korean government can't make a frank criticism of the IMF yet, many Korean economists now, as well as social groups such as the labor unions, are demanding independence from the IMF. Whatever recovery we have in Korea and Asia is despite the IMF's programs, not because of it. Actually, the IMF was surprised at how fast we recovered.

EIR: Surprised because they hadn't meant you to recover?
Dr. Wang: Who knows? Meanwhile, the Japanese have again proposed the Asian Monetary Fund, which has now been revived again. Many people thought the AMF was dead, but they were wrong. And now, China and Korea would like to cooperate, because the region can't stand a second shock.

The first step is the Chiang Mai Initiative, which is the beginning of the rebirth of the AMF. It is a comprehensive network of bilateral swaps and repurchasing borrowing agreements between the ASEAN countries and the "Plus 3" countries of Korea, Japan, and China. This means that each country has or will have by the end of this year, an agreement with each other country, to swap funds to support their currencies. For example, Korea and Japan have a bilateral agreement to loan each other up to $5 billion for intervention, in case either currency comes under attack. We are trying to build bilateral swaps of $80-200 billion among the 13 countries this year.

To move Chiang Mai forward, next we have to go from a bilateral to a comprehensive agreement for multilateral swaps, which would mean that if any country among ASEAN Plus 3 has its currency come under attack, all the members would be committed to support it. This means a bigger commitment of each member country to the regional strategy. Dr. Yung Chul Park of the Korea University Economics Department and I will be presenting a study on how to do this, to an Asian Development Bank meeting in Manila later this month. The basic principle would be similar to the ASEAN Swap Arrangement signed by the original five ASEAN nations in 1977, under which each participant agreed to provide a credit line to create a joint pool of foreign exchange, to be loaned to any member-nation which needed to support its currency. The sums will have to be much larger this time.

The Chiang Mai Initiative also needs to institutionalize regional economic and financial cooperation, for which my associates and I are proposing to create an "Asian Arrangement to Borrow" (AAB), modeled on the IMF's General Agreement to Borrow (GAB) and New Arrangement to Borrow (NAB). Under the GAB, the top ten industrial countries agreed in 1962 to jointly loan to the IMF an additional [Special Drawing Rights] fund of about 17 billion SDRs ($23 billion), above and beyond normal IMF quotas, for use in emergencies, such as the British sterling crisis of 1964 or the more recent Russia crisis of 1998. As a result of the 1994 Mexico crisis, 25 IMF members also formed the NAB with an additional 17 billion SDRs, so that the total the IMF can now borrow under NAB and GAB is SDR 34 billion (about $46 billion). The NAB was used in the 1998 Brazil crisis.

The AAB would be a similar set of credit lines put together by the ASEAN Plus 3 governments to loan to member-nations in crisis. We could set up a secretariat at the Asian Development Bank to gather the money and loan it to members in need, or just assign one Asian central bank to host it. It would not yet be a fund, just a borrowing arrangement, and how could the Western nations object, since they have been doing it for some time? The appropriate amount of the total credit commitments to secure the effectiveness of the AAB would be about $30-50 billion minimum, considering the current scale of foreign reserves of Asian countries.

Following the demonstrated success of the AAB, ASEAN Plus 3 would then be in a position to make our second step, the creation of the Asian Monetary Fund. This would be an actual standing fund created by quota contributions from each participating nation. It could in addition take over operation of the AAB.

The third step will be the creation of some kind of Asian currency or accounting unit, which would allow us to have a unified method of accounting for financial operations, trade, and investment throughout the Asian region. A major reason why Asia was so vulnerable to external shocks from global finance was due to our currency volatility, which came largely from the extreme fluctuations in the U.S. dollar and yen rates, which were very detrimental to Asian economies, rather than from problems inside Asian nations.

EIR: Our Founding Editor Lyndon LaRouche is expecting a major new global crisis soon, probably starting with a meltdown on Wall Street. Will these measures be ready in time to protect Asian populations from a second shock?
Dr. Wang: We already have a banking crisis going on right now in Korea; there is no cash in our banking system, thanks to the mistakes the IMF has made in Korea since 1997. Our central bank is printing money rapidly, as in Japan, but the financial system is frozen up, and refuses to lend the money to the rest of the economy. We have built up our foreign reserves to $90 billion, and we're aiming to create a pool of $100-120 billion, to protect our currency, which tells you we definitely don't rule out another big global shock. Japan and China are also building up huge reserves.

So, we have no choice but to move as fast as we can. Together, the ASEAN Plus 3 countries have more than $800 billion in foreign reserves; by using only 10% of that in swap arrangements, we can protect almost any currency in the region from speculative attacks. That we know we can do; we already have collaboration to that extent.

EIR: Many worry that China, Korea, and Japan won't be able to work together.
Dr. Wang: Today is different from 1997; actually, it was China which initiated the ASEAN Plus 3 idea, so if this group remains at the center of it, China and Korea will both agree now with Japan to put significant funding into creating an Asian Monetary Fund. We have to find a way, such as the idea of an Asian currency unit, in which China and Japan could have equal power in the region, to promote trust and cooperation, especially among the Plus 3 countries. If we can do that, then we will be able to create a new superpower in Asia. We have learned a lot from the 1997 crisis.

The 1997 crisis was not just an "Asian" crisis, but a global financial crisis which also included Latin America, Russia, OPEC [Organization of Petroleum Exporting Countries], and the U.S. itself, with the collapse of the highly leveraged Long Term Capital Management (LTCM) [hedge fund] group, threatening the entire U.S. capital market. Western academics and media insisted that the cause of the crisis was "Asian cronyism," as if corruption were some genetic inferiority here in Asia, but the bailout by the Federal Reserve of its own cronies at LTCM was the largest case of crony capitalism during this time.

The real cause of the 1997 crisis was the panic behavior of global investors. They had put large-scale capital flows into the region, looking for high rates of return, and so they knew this was a high-risk situation. Western hedge funds were prominent, looking for very fast high returns. Interest rates were falling in Western markets, and investors were getting out of low-rate traditional savings accounts into mutual funds, creating a large pool of funds looking for higher rates of return. Meanwhile, all the countries I just mentioned were being heavily encouraged by the U.S. and the IMF to implement financial deregulation, with the direct result that this foreign money came rushing in. This created a kind of euphoria, meaning it was not realistic. But no one in the West warned against this "irrational exuberance."

It was largely hot money, going into stock markets, real estate, and other short-term situations. These were largely dollar funds being converted into local currencies, largely ignoring the risk that the local currencies might experience fluctuations. So, where the local currencies did experience fluctuations, which threatened their peg to the dollar, the global investors panicked in a kind of herd behavior and caused a much more severe crisis.

EIR: Not to mention deliberate targetting of countries by George Soros et al.

Dr. Wang: Not to mention. Then came the IMF, and the real problem was that the IMF policy prescriptions were totally wrong. Take Korea. The IMF didn't know anything about the Korean economy! They sent some nice guys over here, good academically, but we were holed up with them down at the Ministry of Finance and Economy in December 1997, freezing in this one room because we didn't have the cash for fuel, and they just didn't know what they were talking about.

First of all, the job of the IMF supposedly is simply to make short-term balance of payments loans. Korea was just experiencing a short-term cash crisis—our reserves were down to \$3 billion—but our exports and production were fundamentally sound, so their job was just to make a simple bridge loan, to get us short-term cash to weather the short-term crisis, then we pay them back, and that is that. But instead, they began making detailed prescriptions for redoing every sector of the Korean economy, areas which were none of their business, according to the IMF's own charter.

For example, it was none of the IMF's business to restructure Korea's foreign trade market; this had nothing to do with our problems in the short-term financial markets. But they insisted—even though they didn't know the Korean trade system. We already had a WTO [World Trade Organization] program with a formal WTO schedule to phase out over the next six months, certain tariffs we had to protect our auto and electronics industries from Japanese imports into Korea. But the IMF guys found this one thing, and they jumped on it and said, "You have to remove these tariffs right now!" It could not wait just six months. I tried to explain to them that we were all there because Korea was having a balance of payments crisis, and that the worst part of our trade deficit already is too many imports of Japanese autos and electronics—so why do you insist on doing this, it will just make the trade deficit worse? But they refused to wait; they forced us to implement a blanket removal of all tariffs. So, things got even worse.

Another stupid thing the IMF did was to insist on major long-term structural changes to liberalize our banking markets, our capital markets, our labor markets, every market. So we opened up everything, and put interest rates up over 20%, as the IMF demanded—and the only result was that the U.S. banks made a terrific profit, buying companies cheaply, making loans at 20% interest! The Korean banks and companies just kept losing money; that didn't change. Well, actually, things got worse for Korean companies. Before, the Korean banks used to help the companies out in a cash squeeze. Now, the Korean banks refuse to provide any lending to the Korean economy, because now they are U.S.-style, lending only for profit, avoiding risk. So the Korean government would provide funds to the banks, but the banks would just put the money in the bond market or somewhere else to earn the 20%-plus.

That's why we had so many small and medium-sized companies go under, not to mention Hanbo Steel, Daewoo, and Hyundai—because our banks refuse to provide funds. Rates are lower today, but the same thing is still going on; our central bank provides cash to the commercial banks at, say, 5.5%, but they refuse to loan it to industry; they just buy government bonds at 7%, and take the cash profit. No matter how the government tries to push money into the economy, the banks refuse to lend it.

EIR: In the Great Depression, we called that "pushing a string." No result.

Dr. Wang: We just imported wholesale the U.S. style of banking and capital markets—and now our markets don't work!

The point is: The IMF should have just done their job and made a bridge loan, and that's all. This sort of major overhaul has nothing to do with a simple, financial, short-term balance of payments crisis. They had no business demanding this kind of major economic change.

Then the IMF made its big push to reform the *chaebol* [industrial conglomerates]. The new government coming in [under President Kim Dae-jung] also wanted to get power over the powerful *chaebol*. Unlike the Japanese, who are moving very slowly with this, to preserve social stability, the Korean style is the opposite—hot blooded, we have to just shut down the *chaebol,* and every Korean economist repeated together with the IMF: The *chaebol* are the cause of our problems.

But this was nonsense. Sure, the *chaebol* had problems, they had very high debt-to-equity ratios, they had corruption, but they were not the cause of the crisis. The cause of the crisis was the global panic, and the IMF took the excuse to demand *chaebol* restructuring, which, again, was none of their business. The *chaebol*'s biggest sin in the eyes of the IMF was that they were expanding production facilities very fast—take Hanbo steel: In the pre-crisis period, it got killed for the sin of building too big a steel-production capability.

EIR: I thought that for years, but everyone said the opposite, and I was beginning to think I was crazy; I am so glad you said that. Friedrich List said, there is good debt and bad debt; debt which goes to expand production of goods people need is good debt; you make a profit, you pay it back.

Dr. Wang: You are right: They are the crazy ones. Take a company like Daewoo, which did have a high debt structure, selling a lot of commercial paper in a lower-interest market; then you hit it with the IMF's 20% interest rates—it's the kiss of death. The kiss of death for a lot of Korean companies.

Hyundai is now getting hit because they refused to sell off parts to foreign investors. First the high IMF rates hit them, then there were rumors floated by foreign financiers in Hong Kong that Hyundai was going under, which caused foreign bank credit lines to dry up, which is critical for construction companies. Hyundai Construction is their core, and with the Korean market and all the LDCs [lesser developed countries] cancelling almost every construction project, they were hurt badly. Daewoo has been basically taken apart; we don't know yet exactly what will happen with Hyundai. Samsung, SG, and Lucky Goldstar were able to sell off parts of their conglomerates to foreign investors, and so they may have raised enough cash to survive.

But this was all very profitable for Western investors. Today, global foreign hot-money investment controls about 30% of the Korean stock market, whereas before the crisis it was only about 9%. Now the foreign investment firms are not only the market-makers in the global market, but they also have become the market-makers domestically here in the Seoul market.

EIR: You mean the big Wall Street firms, Goldman et al.?

Dr. Wang: Goldman, Salomon, the usual Wall Street giants—that's the key thing now: Who's going to control the Seoul capital market itself? Not to mention the other capital markets in Asia, unless we protect ourselves? So, as I said earlier, the banking crisis, the crisis is here. What comes next depends on Asian regional cooperation to protect ourselves. I believe we can do it.

Billions at the Poker Table for UMTS

by Lothar Komp

It's just what millions of consumers have been waiting for: the ultimate in Internet surfing with mobile telephones. And this is not just a matter of transferring a few lines of text, like today's SMS technology. Consumers will be able to download videos and music clips wherever they happen to be. According to the "New Economy" experts, this will boost employee productivity, as well as enrich their recreational hours in previously unheard-of ways. The "third generation of mobile telephones," called UMTS, will be set to go in about three years—if everything works out.

Before UMTS gets under way, large telecommunications firms will have to cough up hundreds of billions in money. First, they have to bid for the limited number of licenses for available UMTS frequencies, which has already begun in Germany, accompanied by media fanfare. Similar auctions will take place in other European countries over the summer. According to estimates by the U.S. rating agency, Moody's, UMTS licenses alone could well dump some 300 billion deutschemarks (roughly $195 billion) into European national treasuries. In addition, these firms will have to invest another DM 300 billion into needed infrastructure. Because UMTS will work over different frequencies from today's mobile telephones, all existing transmitter stations (40,000 in Germany alone) will have to be retrofitted or replaced.

That means that telecommunications firms will begin to make a profit in four to five years, at best, or maybe only in ten years. That's assuming, of course, that every European over the age of 12 buys a UMTS mobile phone, and runs up more than a four-digit bill in annual user charges. More than a few serious observers have cast some doubt on such calculations, and so, the stock prices of these firms have gone into a tailspin in the past few weeks. Deutsche Telekom dropped to 45 euros per share in early August, compared to 73 at the beginning of June and 105 at the beginning of March. That amounts to a collapse of 60% in five months. The competition, such as France Telecom, hardly did any better.

The immense expenditures for an uncertain UMTS come at a time of ruthless acquisition battles on the international telecommunications market, and these battles are just heating up. In July, Deutsche Telekom bought up the American

Voice-Stream (i.e., its customer base), for DM 106 billion, which is DM 44,000 for each new customer added to Deutsche Telekom.

Acquisition Mania and Mountains of Debt

Other branches of industry are going the same way. In the first half of 2000, mergers and acquisitions (M&As) in Germany reached the highest level ever, with a total of 847 transactions and a turnover of DM 507 billion in the first six months of the year, almost ten times the level of 1999 (DM 53 billion). The lion's share (about DM 415 billion) was related to Vodafone's acquisition of Mannesmann. But the other DM 92 billion still topped the value of M&As for the previous year by 52%. Had the merger of Deutsche Bank and Dresdner Bank not fallen apart at the last moment, DM 55 billion would have to be added to this amount. Thousands of acquisitions among medium-sized German firms are not even accounted for in these official statistics. On the global scale, DM 3.7 trillion went for M&As in the first half of the year. That is about equal to the value of German economic output for a year.

The flip-side of this development is the accumulation of a gigantic mountain of debt. In the first half of 2000, debt incurred on the international stock and bond markets reached an all-time high. According to Thomson Financial Services Data, DM 2.8 trillion of new liabilities were incurred over this period, 40% more than a year earlier; DM 1.5 trillion was in Europe alone. The largest share of these new debts are incurred in the telecommunications sector.

Had the firms making the acquisitions relied on earned profits or bank credits, the whole process would have fallen apart long ago for lack of liquidity. The explosive growth of mergers and acquisitions relies on the ever more frequent use of so-called "acquisition currency" stocks. The shareholders of the acquired company receive no cash, and instead get shares in the acquiring firm. Since the market value of the shares of a technology company is nowadays 50 or 100 times the annual profit, the firms can dip into a volume of liquidity for their global adventures which could never be scraped together out of profits from their business operations.

Corporate Bonds

Corporate bonds are also playing a growing role in the financing of global firms. In the past in Germany, large banks almost exclusively went to the international bond markets to obtain the liquidity they lacked on the base of new customers' deposits. Now the large energy and telecommunications firms are moving into the bond markets in a big way. At the end of June, Deutsche Telekom issued the largest volume of bonds of all time: $14.6 billion. Traditional government bonds, on the other hand, are receding on account of stagnating expenditures, gains from privatization of formerly state-sector firms, and now the sudden blessing of auctioning the UMTS licenses.

A privatization of the bond markets is under way at breathtaking tempo. The risks are increasing in tandem. Large volumes of bonds with state guarantees and moderate profit margins are being exchanged for insecure bond issuances by the private sector, including "junk bonds," which are now reappearing in grand style.

A sharp increase in failed payments on corporate bonds is noticeable in the United States. In the first half of 2000, the so-called "default rate" reached the highest level since 1991, when the United States was struggling with the collapsed junk-bond bubble. According to Moody's estimates, the "default rate" in the first half of this year was 5.4% and will probably rise to 8% in the next half year. That means that one out of 12 firms will be unable to pay the interest on its bonds, and the nominal value of bonds will go up in smoke in some cases.

London analyst Stephen Lewis recently remarked to the Swiss financial daily, *Neue Zürcher Zeitung,* that the next international financial crisis will probably not have a regional trigger. The center of the next crisis should be looked for where investors provided funds to a certain group of debtors indiscriminately, and where the financing activities are most intense. Whoever is looking for systemic risks can find them most easily in the telecommunications sector.

Sudan Sets Development Course, Despite Anglo-American Sabotage

by Muriel Mirak-Weissbach

The author and Uwe Friesecke of EIR, *recently returned from a visit to Sudan and Egypt, where they had extensive discussions with persons involved in economic planning.*

Sudan is the largest country in Africa, and has the potential, in cooperation with Egypt, to become the breadbasket, not only for the entire African continent, but for large parts of Asia as well. It is a political fact that, if Sudan were simply left alone, it could take the necessary steps to bring this about. Instead, the country has been subjected to harassment, sabotage, and destabilization, from British political circles, and their Washington partners, in a concerted effort to prevent this development potential from being realized.

It is the stated policy goal of the Anglo-Americans, going as far back, for example, as the notorious 1974 National Security Study Memorandum 200, authored by Henry Kissinger, that such leading countries in the developing sector are not to be allowed to progress economically and socially. Instead, Africa is slated for extinction, through the combination of wars, famine, drought, and pandemic diseases; Anglo-American policy is to let the populations die, and to prop up local warlords, who will oversee the export of the continent's rich raw materials and minerals.

Thus, the continuing conflicts in the Great Lakes region, in Angola, Sierra Leone, southern Sudan; thus, the devastating "natural disasters," caused in reality by lack of infrastructure, such as the floods in Mozambique early this year and the drought in Ethiopia this year; thus, the species-threatening HIV/AIDS pandemic sweeping southern Africa, literally annihilating entire national populations.

Yet, the fight for development has not been abandoned. On the contrary, certain political forces are redoubling their efforts to beat back the new imperialist onslaught, to establish peace where there is war, and to embark on an ambitious course of economic development.

Sudan is a case in point.

National Reconciliation

The single most destructive process undermining Sudan, is the war which has been raging in the south, since 1983. The insurgent Sudanese People's Liberation Army (SPLA), under warlord John Garang, has accelerated its military offensive in recent months, despite repeated offers by the government of negotiations, following a cease-fire. Garang has been able to increase his military pressure, not only in the south, but also in the east, thanks to continuing logistical, financial, and political support from Anglo-American and Israeli forces. Humanitarian aid organizations, most notoriously the Norwegian People's Aid, have been involved in ferreting military supplies and food, to the insurgents. The cost of the war is generally calculated as $1 million per day for the government, but the human cost is much higher and unredeemable.

The government's primary concern, therefore, has been to end the war. The government signed a peace agreement with several rebel groups in 1996, and, in 1997, six of the seven southern rebel groups joined the treaty. Subsequently, the government drafted a constitution, which included the 1997 peace agreement, calling for a referendum in the south, on unity or independence.

Garang has rejected these moves. He has also consistently refused to participate in peace talks, convened under the auspices of the Inter-Governmental Agreement on Development (IGAD), which includes the states bordering on Sudan, as well as "friends" of the IGAD, from Europe and the United States. These latter, in particular, the Great Britain, the Netherlands, and the United States, have sabotaged any progress toward peace. One major act of sabotage, involved the resignation of Riek Machar, a former southern rebel leader, who had joined the government and chaired the Southern Sudan Coordinating Council. It is rumored that external pressures were also brought to bear to effect this unfortunate development.

The latest initiative, launched by Egypt and Libya in 1999, has aimed at piecing together a peace agreement with the political parties in the opposition umbrella group, the National Democratic Alliance (NDA). This group included the Umma Party of Sadiq al Mahdi, the Democratic Unionist Party of Othman Mirghani, the Communist Party, and others, as well as the political wing of the SPLA. In mid-March 2000, Sadiq al Mahdi left the NDA, and entered into talks with the government, which wants to encourage the opposition parties to return to Sudan from abroad, and participate in the political process. One wing of the DUP had done so, earlier. Now, all the parties have been invited to join.

The form this is taking at the moment, is a conference for national reconciliation. Chaired by Marshal Abdel-Rahman

The Khartoum Refinery, which EIR *visited on Aug. 2, is a joint venture between the China National Petroleum Corp. and the Ministry of Energy and Mining of Sudan. With the refinery, Sudan can cover its domestic consumption, and then export.*

Suaraddahab, the steering committee of the Preparatory Dialogue Forum was convened on July 28, in Khartoum, to set the stage for a national reconciliation conference, to be held in August. If the process of national reconciliation is successful, a coalition government could emerge, which would provide a broader popular mandate for peace. Otherwise, elections for a new National Assembly and the President, would be held in the autumn.

Most significant is the fact that the initiative is backed by Libya and Egypt, which latter had been the base for the political opposition parties in exile. Egypt's relations with Sudan had been broken in 1995, following the attempted assassination of Egyptian President Hosni Mubarak, which was blamed (wrongly) on the Sudanese. Relations were repaired only after investigations cleared Sudan of any responsibility. Now, full diplomatic relations are to be restored, crowned by a summit meeting of the two Presidents.

Egypt reinforced its support for the national dialogue idea, last December, following an internal reshuffling in the Sudanese political leadership. Differences in approach, mainly personal, had led to a situation of "dual leadership," between President Omar al-Bashir and Dr. Hassan al-Turabi, then head of the main political party, the National Congress, as well as speaker of the parliament. When tensions threatened to paralyze the governing process, Bashir issued a decree, dissolving the parliament, and reestablishing his political leadership. The move was welcomed by the leading political figures in Sudan, including those closely associated with Turabi, and was applauded by Egyptian authorities, who expressed immediate support for Bashir. Egypt followed up, by mediating or facilitating Sudan's rapprochement with other states in the region, and, reportedly, also intervened in Washington, in an attempt to blunt the aggressive stance of the State Department. The visit of special envoy Harry Johnston to Sudan in mid-May 2000, was one indication that the Clinton Administration might be willing to reestablish contact. When Johnston was in Sudan, he was confronted with the fact of the Egyptian-Libyan initiative, and was challenged to either support it, or, at least not sabotage it.

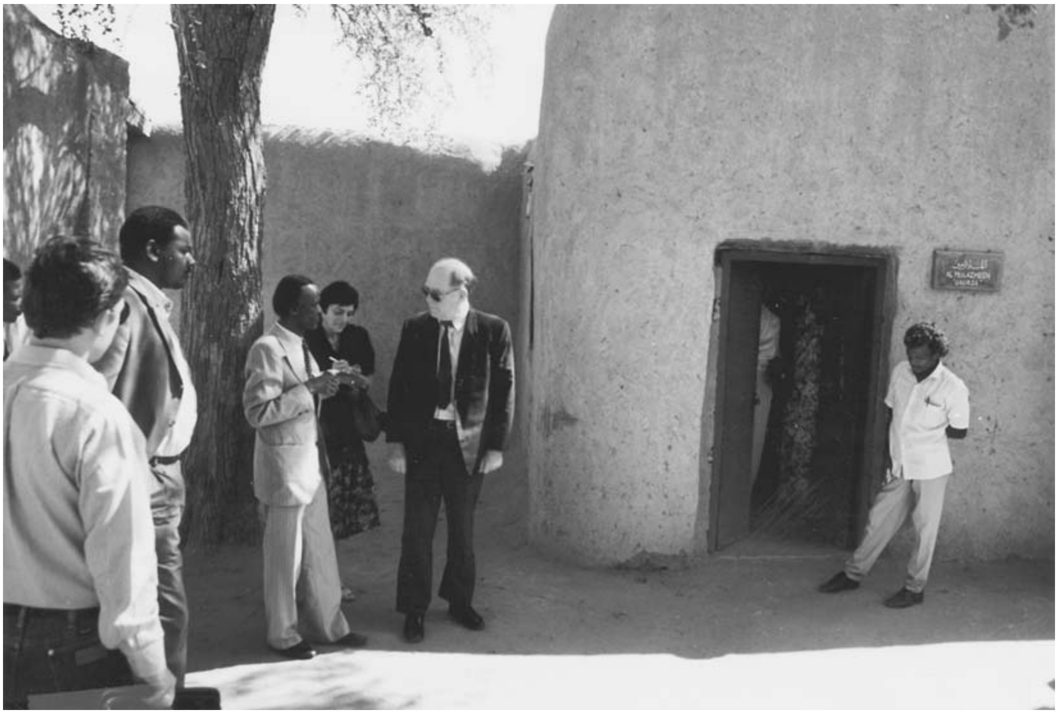
Oil for Development

If Sudan is allowed to pursue national reconciliation, with the active support of Egypt and Libya, the basis can be laid for ending the war in the south, and turning to the happy task of economic development. Here, the recent opening of an oil refinery 70 kilometers north of the capital, has greatly enhanced the country's perspectives for development. The Khartoum Refinery, which *EIR* visited on Aug. 2, is a joint venture between the China National Petroleum Corp. and the Ministry of Energy and Mining (MEM) of Sudan. The agreement for the project was signed on March 1, 1997, construction began May 26, 1998, and the plant started production on May 16, 2000. The refinery's crude processing capacity is 2.5 million tons per year, with an annual output of 2.258 million tons of oil products, including gasoline, diesel, kerosene, fuel oil, and liquefied gas. The refinery was designed and constructed by the Chinese, according to Chinese standards and advanced process technology.

With the refinery, Sudan can cover its domestic consumption, and then export. In addition, the plant has a power station, which provides energy to operate the refinery, and to supply the National Electricity Corp. with power. As for the financial arrangements, China receives 20% of revenues, plus 40%, to pay off the initial investment. Once it has been paid off, Sudan will receive 80%.

On Aug. 4, Sudan began exporting surplus gas. As the Secretary General of the MEM, Engineer Hassan Mohamed Ali Eltom announced to the press, the first ship carrying 2,600 tons of gas, left Port Sudan for international markets. On June 5, it had started exporting benzene, and is continuing at the rate of 40,000 tons per month.

Such new export revenues will be added to Sudan's reve-



Lyndon H. LaRouche, Jr. (center) with Sudanese officials during a December 1994 visit to Sudan. EIR*'s Muriel Mirak-Weissbach is standing behind LaRouche. Despite the assault against Sudan by the Anglo-American financier oligarchy, the national fight for development and reconciliation has not been abandoned.*

nues for crude oil, which it has been shipping abroad via its pipeline to Port Sudan, also built with the cooperation of the Chinese, and the Malaysians. The new revenues will make up 23% of the national budget this year, and will be allocated for investments in key sectors of the economy: irrigation for agriculture, which is the leading sector; education; basic health care; energy, communications, and transportation; and social programs, through the High Committee on Poverty Reduction, which has been established.

Agriculture is Sudan's priority sector in the economy, and it accounts for 50% of GDP. The country is self-sufficient in food, although food distribution problems are severe in areas affected by the war. Due to severe droughts in 1974, 1983, and again in 1989-90, agriculture had been hit, and exports had dropped from a high of $600 million to half that much. Now, they are back up to $600 million, and are expected to increase, as investments are intensified. Planned investments include allocations for rehabilitation of the Nile, dredging canals of silt, and financing for farmers, to increase the area under irrigation. Furthermore, plans exist to expand the area under cultivation of the vast country. Of the estimated 200 million feddayns (a feddayn is roughly an acre) of arable land, about 35-40 million are cultivated, either in the irrigated fields of the Gezira Scheme, the fertile lands along the Nile, rain-fed areas, or the fully mechanized farms. Sudan also has over 100 million head of livestock, bred and raised in the traditional manner; meat was the country's second most important export last year, after oil.

Oil, whose revenues will finance agricultural expansion, has thus become a strategic asset for Sudan. It is no wonder that the rebel SPLA has attacked the pipeline, bombing it several times, to sabotage oil exports. At the beginning of the war, Garang's forces killed French Chevron workers, which halted work. Work on the Jonglei Canal, a major water management project in the south, whose completion would vastly increase agricultural productivity, was also halted due to the war, years ago. It is to be assumed that the SPLA would like to target the new refinery as well.

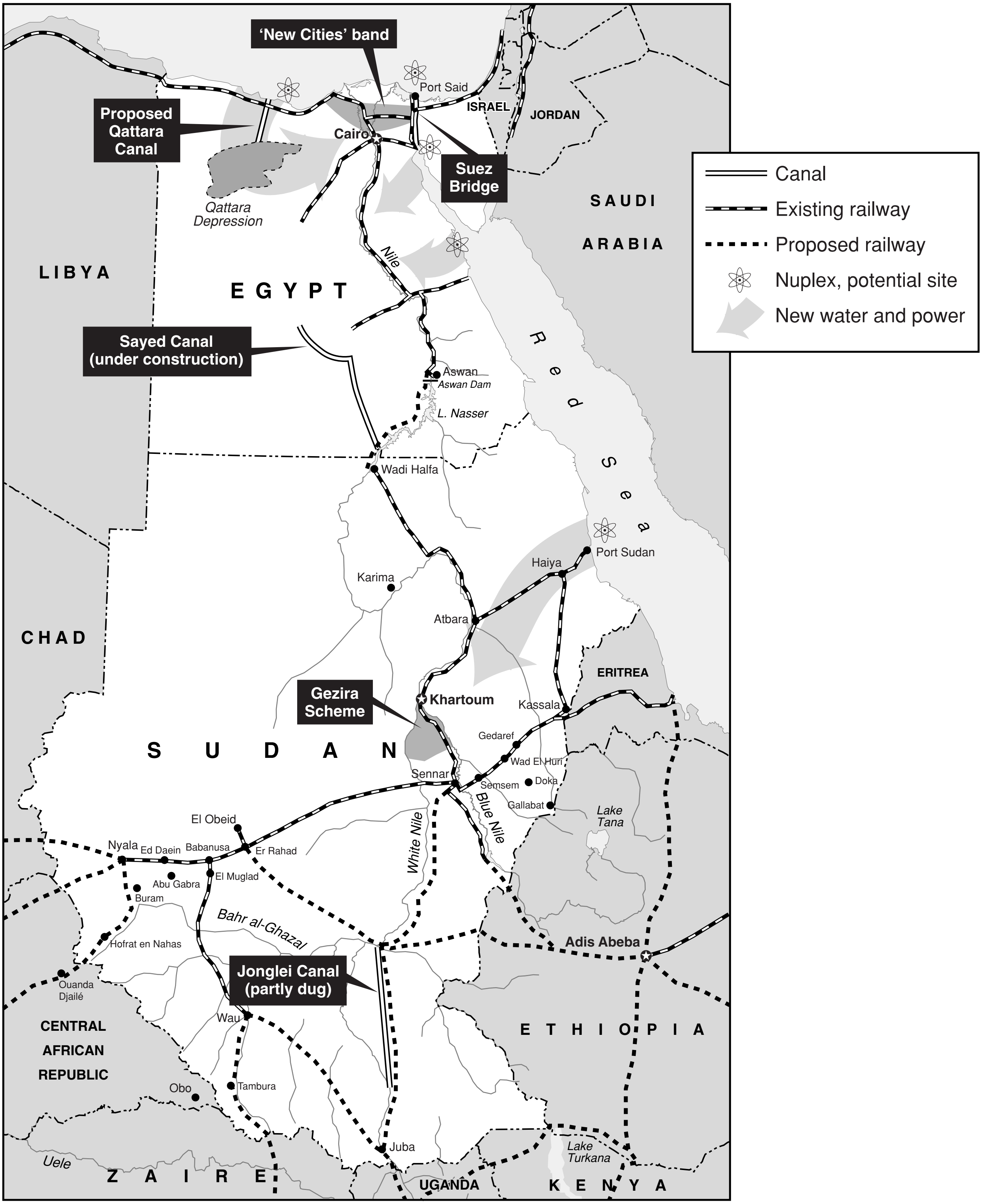
Africa and the New Silk Road

The other sector which is vital to improving the economic picture, is transportation, especially rail. In December 1998, Sudan decided to operate its railroads commercially, through partial privatization. The construction, upgrading, modernization, and development of infrastructure (including permanent routes, stations, signals, and telecommunications) was to remain under government responsibility, while operations, including hiring rail cars and rolling stock, were to be in private hands. An experimental stretch of track between El Obeid and Rahad has been operating on this basis for the last year.

Sudan has one of the few national railway networks in Africa, but there is room for massive expansion inside the country, as well as to neighboring countries (see **Figure 1**). The Sudan Railways Corp. is one of the longest on the continent, operating a 5,898 km single line of 1.067 meter gauge. The main route extends from Port Sudan, via Atbara to Khartoum, flanked by an alternate route from Haiya and Sennar via Kassala. There are branch lines north to Karima and Wadi Halfa. The network has suffered considerably, as a result of

FIGURE 1

Egypt and Sudan: Selected Infrastructure Projects, Present and Proposed by EIR, 1997



the U.S. sanctions imposed in 1997, which have blocked urgently needed spare parts. At least $1 million has already been paid for the spare parts, which are American, but delivery has been politically blocked. Some 90% of Sudan's fleet is American, produced by General Electric, General Motors, and others.

The most recent extensions include new lines built for petroleum transportation, between El Muglad and Abu Gabra (52 km), and between the refinery in Abu Khiraiz and El Obeid station (19 km), completed in 1995 and 1996, respectively.

Now under discussion are plans to extend Sudan's railway westward, into Chad and the Central African Republic, as well as eastward, into Ethiopia. Considering that Central Africa is served by roads only, with no railroad, there are several options for points of connection. Those proposed by the railway authority, are the following: a) from Ed Daein through Buram and Hofrat en Nehas (360 km) to Ouanda Djailé in the Central African Republic (90 km); b) from Wau through Tambura and on the southeast border to Obo in the C.A.R., for a total length of 270 km; c) from Nyala to the adjacent borders between Sudan/Chad and the C.A.R., with a total length of 300 km. This plan also contemplates rehabilitation of existing lines. The total cost of extension a) plus the rehabilitation of Babanusa-Ed Daein, would be $155 million, and if the line from Babanusa through to Nyala were rehabilitated, it would amount to $220 million; the cost of b) plus rehabilitation of Babanusa-Wau, would be $160 million; and the cost for c) plus rehabilitation of Balbanousa-Nyala, would be $145 million.

In a study of extension into Ethiopia, the Sudan Railways Corp. identified three possible routes: a) El Huri-Semsem-Semsem Center-Ba Sonda-Gallabat; b) Wadi El Huri-Semsem-Doka-Gallabat; and c) Gedaref-Doka-Gallabat, each of which would cost $30-40 million. Although the cost factor is significant, the investment would rapidly pay for itself, in terms of vastly upgraded productivity of the economy of the entire region.

Finally, there is the possible connection to Egypt, through the construction of a link in Egypt, from Wadi Halfa in Sudan, to Aswan. This connection would be complicated, due to the fact that the two countries have different gauges, but not impossible, as a transitional arrangement.

The extension of Sudan's railways into these areas, would revolutionize economic and trade relations not only for Sudan, but potentially for the entire continent. The Central African Republic and Chad, which are now dependent for transport on Nigeria and Cameroon, would have access to Port Sudan. The lines to Ethiopia, hopefully extended to Adis Abeba, would link Sudan to east Africa. Most important, completing the missing link between Wadi Halfa and Aswan, would make it possible for Sudan, and potentially all of Africa, to be linked to the Eurasian Land-Bridge, or New Silk Road. In Egypt, as *EIR* has reported, intensive study has been conducted by the Center for Asian Studies of the Faculty of Economics and Political Science, of the University of Cairo, on the perspective of extending the Eurasian Land-Bridge into the Persian Gulf region, and into Africa, via Egypt (see "Egypt and the New Silk Road," *EIR,* Aug. 4, 2000; and "Egypt Seminar Takes Up LaRouche, Silk Road," *EIR,* May 26, 2000).

The studies conducted by the Cairo group, were presented in a seminar in Port Said last April, generating considerable interest inside the country and abroad. In early August, the news was released, that the Orient Express, connecting the Arab countries, is being built. A crucial part of it, a bridge over the Suez Canal, has been completed. On Aug. 6, the French-language Egyptian paper, *Progrès Dimanche,* wrote, "The Sinai will be witness, at the beginning of next year, to the running of the first train to cross the Suez Canal by over the Ferdane bridge." This, the "first mobile metallic bridge in the world," is almost ready for inauguration. The train "will connect Africa to Asia, on the one hand, and the Sinai with the rest of the country, on the other."

The paper continues: "This project will confirm Egypt's pioneering role in the return of the 'Orient Express' which is to reconnect the western and eastern wings of the Arab world, and probably, in the future, ensure a link with the rest of the Near East and Europe, if Israel does not persist in rejecting cooperation with the Arabs to find a solution to the Palestinian porblem."

In fact, the train should be a function of peace: "It is foreseen that the Orient Express will start in Egypt and go to the Palestinian territories, and later, in the event of peace with Israel, through Israel to Lebanon and Syria. This train should reach, in the future, eastern and western Europe." Egypt has already signed a peace treaty with Israel, and is trying to push through a Palestinian-Israeli agreement.

Transport Minister Dr. Ibrahim El-Domieri stated that the Ferdane bridge and the rail line from Ismailia, toward Rafah (on the border with Palestinian Gaza), "will constitute the core of the return of the Orient Express in the Arab coutnries." In fact, talks are onging with all the Arab countries, to see to what extent each will contribute to the project. In Egypt, engineer Mohamad Maher Mouzstapha, president of the Railway Authority, declared that the construction of the Ismailia-Rafah link (225 km, with 14 stations), is about to start, in the context of a national project for the development of the Sinai peninsula. The Ferdane bridge, over the Suez Canal, is 640 meters long. The new rail line is to greatly enhance Egypt's revenues, through cheaper, faster cargo transport.

Considering recent developments leading to the reestablishment of full diplomatic relations between Egypt and Sudan, and the commitment of the Egyptian government to promote peace, through its joint initiative with Libya, there is good reason to be optimistic, that such infrastructure projects can be realized, and lay the basis for the long-overdue industrialization of the African continent.

Business Briefs

Southeast Asia

Foreign Investment Has Fallen Sharply

A report by the Secretary General of the Association of Southeast Asian Nations (ASEAN), Rodolfo Severino, states that foreign investment in the region has fallen sharply, the *International Herald Tribune* reported on July 27. The report, which is usually released to the public, has been kept private. It warns that ASEAN faces a "serious challenge" in attracting investment, as large economies and free-trade regions elsewhere in the world are gaining strength.

The newspaper said that some ASEAN nations were concerned that the report would reveal that their economies are backsliding into economic crisis.

The report warned that China's accession to the World Trade Organization will pose a "formidable" competitive challenge to ASEAN. "China and, at least potentially, India, are huge markets in their own right and magnets for foreign investment seeking production platforms for export to the rest of the world."

However, China has recently released figures noting a collapse of foreign investment there over the past two years.

The ASEAN report said that foreign investment in the region fell from $21.5 billion in 1997 to $16.8 billion in 1998, and then to $13.1 billion in 1999. Only Singapore, of the group's ten members, had a substantial rise in foreign investment in 1999. The report called on ASEAN to "maintain and strengthen" its commitment to regional economic integration, and to go ahead with its planned free-trade zone beginning in 2002.

Health

Ontario To Offer Free Influenza Vaccination

Ontario, Canada will be the first jurisdiction in North America to offer universal, free vaccination against influenza, it was announced on July 25. The reasons are both good and bad: On the good side of the ledger, universal vaccination (as opposed to vaccinating only those at greatest risk) has the potential, according to one expert cited by the July 26 *Sault Star* in Sault Saint Marie, to "help combat the next super-flu pandemic—a mass outbreak of a new and dangerous strain of the virus which may already be overdue." On the other side, Ontario is hoping to ease the strain on overcrowded hospital facilities and emergency rooms, whose overcrowding is due to cutbacks, rather than restoring the budget required for quality health care. Last year, an 18-year-old asthmatic died of cardiac arrest, when the ambulance he was in was turned away from one Toronto emergency room, and sent to another 13 minutes away. Nonetheless, even a good health-care system would be overburdened by a flu epidemic, and this is an easy measure to relieve the strain.

Dr. Allison McGeer, of the University of Toronto School of Medicine, said that a vaccine program would also help tackle a flu pandemic, where a new strain of the virus infects many people of a large area and makes them much sicker than usual. "Such outbreaks, like the particularly virulent one that killed millions of people after the First World War, occur about every 30 to 40 years, and the world may already be overdue for one," she said. New vaccines have to be developed for new strains of the virus. But having a system for making and distributing the vaccine universally would mean that a mass inoculation could take place much more quickly and easily.

Africa

Adopt Protectionism, Ghanian Newspaper Urges

The pro-government Ghanian daily *Graphic* called for making use of quotas, discriminatory tariffs, and tax measures to protect industry, in its lead Aug. 2 editorial. Free trade may work for some Western economies, but it does not work for the developing sector, and Ghana can attest to this fact, it said. "As a matter of fact, the policy of free trade offers a unique opportunity for the developed nations to use their advantageous positions and strengths on the global market to flood developing economies with their products."

In a news article, the daily reported on an initiative by the country's Association of Small-Scale Industries, which just days earlier, had "joined a number of local business groups in calling on the government to review the policy of trade liberalization embarked upon in the country. They contend that such a move would help protect local industries and provide the much-needed boost to the national economy." The daily took up the subject in its editorial, saying: "We are compelled to return to this subject mainly because of the immense importance it has for the national economy. . . .

"The *Graphic* is keenly aware of the damage our rather over-zealous liberalization of trade has done to the nation, including its contribution to the collapse of mainly local industries along with thousands of jobs, incomes, and the standards of living of our people. It is a fact that no economy can be viable if it engages in little productive activity and more of the trading of manufactured goods of others. We clearly need to reverse this trend and create the basis for protecting local industries to spearhead the drive for national self-sufficiency. The *Graphic* finds it absurd that at a time that we are grappling with foreign exchange problems, we should continue to use $100 million a year to import only rice, a commodity we have the capacity to produce for domestic consumption and for export, as well as several millions of dollars more on other goods we can produce."

The editorial concludes: "Japan and the U.S., the apostles of free trade, have fought many trade wars to protect their economies and people, and we cannot be wrong and condemned for doing so."

France

Study Takes Aggressive Stand for Nuclear Power

A study compiled for French Prime Minister Lionel Jospin has concluded that existing nuclear power stations will retain their cost advantage over gas-fired plants, and that nuclear energy is likely to retain its economic edge when new power plants are built. The study examined nuclear's future in France to the year 2050. Today, about three-quarters of France's electricity is produced by nuclear power plants.

The report was well received by the European Atomic Forum (Foratom) in Brussels. Foratom Secretary General Dr. Wolf-J. Schmidt-Kuster said, "The French report is a welcome reminder of the economic benefits that can be derived from the prudent use of nuclear energy for electricity generation." He stressed the environmental benefits of nuclear, and the energy independence that nations like France have gained. (The report is available in French on the Internet at www.plan.gouv.fr.)

Steve Dean, head of Fusion Power Associates, reported in an Aug. 2 news release that at the July 11 meeting of the Consultative European Committee on Fusion in Brussels, the French delegate announced that France is offering a site for the proposed International Thermonuclear Experimental Reactor (ITER), a project in which Russia and Japan, in addition to Europe, are participating. The United States pulled out a couple of years ago due to drastic cuts in the U.S. fusion budget. Sites have also been offered by Japan and Canada. Dean reports that sources at the event say that Dominique Schwarzenberg, the French minister responsible for nuclear energy, is putting emphasis on fusion development.

Indonesia

Capital Controls Option Should Be Kept Open

Indonesia should not rule out using capital controls, economist Kim Hak-su said on Aug. 3, speaking at a conference on economic policy of the UN Economic and Social Commission for Asia and the Pacific. The conference "didn't rule out the possibility of capital controls" for Indonesia if "there were ominous indicators. There may be some merit in capital control if the indicators of economic performance are not going well; it should be an option," he said. But, he stressed that such a step should be short-term only.

The policymakers from 37 Asia-Pacific nations were discussing potential alternative revenue sources for poor Asian nations, as foreign aid and investment dries up. Kim said that currency jitters in Indonesia, Thailand, and the Philippines, plus anticipated negative fallout in Asia from a possible hike in U.S. interest rates, were some of the "ominous signs" that the region could be verging on another monetary crisis. "So, as far as I know there is no liquidity crunch or liquidity shortage in Indonesia. But if they run out, if the exchange reserves are going down, then perhaps there is the option of capital control," he said.

While the government assumed a rupiah exchange value of 7,000 rupiah to the dollar for the April 1-Dec. 31 fiscal year, the rupiah is now about 8,600-9,200 to the dollar. Kim said this is not consistent with the inflation rate, which he said is "under control." But, "the rupiah has depreciated by 20%. So there is a gap: 5% inflation versus a 20% exchange-rate depreciation. So how can we explain the 15% gap?"

Industry

Farm Equipment Firm To Close U.S. Plants

CNH Global, Inc., formed in 1999 by the merger of Case Corp. and New Holland, and majority-owned by Fiat, announced on July 18 that it will close or sell several North American agricultural equipment manufacturing facilities. The cuts are being made to reduce costs.

Apparently, the largest affected is the combine harvester plant in East Moline, Illinois, which will close by 2004, when the current contract with the United Auto Workers union expires. Of 900 East Moline workers in the former Case plant who will lose their jobs, 720 are hourly workers.

The 157-acre plant has been a mainstay of East Moline for decades. It yields $967,000 per year in taxes and fees to East Moline and its school district. Beneficiaries include the airport authority, mass transit district, townships, and community colleges. East Moline Mayor Bill Ward said that the closing would affect the city's budget for years to come, necessitating budget cuts and increased fees to residents.

Briefly

THE HOLLINGER Corp. has sold most of its Canadian newspapers for Can $3.5 billion, the London *Financial Times* reported on Aug. 1. Hollinger says that it wants to develop an Internet strategy, but the newspaper says the decision might have been motivated by Hollinger's "languishing share price," and aimed at reducing its $1.7 billion debt.

THE PHILIPPINES' Mindanao region is losing at least $22 million per day because of the war against the main secessionist group, the MILF, according to Joann Emiline de Belen, head of the Mindanao Economic Development Council. On July 31, she said that business losses were exacerbated by closure of airports and roads and loss of tourism.

MAGLEV technology can improve industrial productivity, Wiemers Innovative Technology announced on Aug. 3. The Germany-based firm has developed a more efficient, less energy-consuming device to move heavy materials for industrial processing, using the same principle that propels the Transrapid maglev system.

IRAN would like to develop trade with Afghanistan and Pakistan, via the southeastern province of Sistan and Balochistan, Deputy Commerce Minister Mojtaba Khosrowtaj indicated on Aug. 2. He cited the need to pave the cultural way for promotion of trade, remove problems related to border markets, make optimal use of investments in dairy industries, and combat smuggling of contraband.

THE CZECH REPUBLIC wants to become an exporter of nuclear technology. The Ministry of Industry and the CEZ, the operator of the country's nuclear power reactors, plans to ignore recommendations from Western governments and go ahead with the Temelin dual-reactor complex. They estimate that at least $300 million worth of nuclear technology could be exported annually to eastern European nations and to Asia, notably China.

Fight Mounts To Reverse Electricity Deregulation

by Marsha Freeman

During the first week in August, the electricity crisis in the state of California made front-page headlines in newspapers across the country. Residents of the southern California city of San Diego had received July bills from their utility that were more than double what they paid for electric power a year ago.

At a raucous meeting on Aug. 3, the state's Public Utilities Commission voted to authorize a $100 million rebate to San Diego customers, to try to alleviate some of the impact of the rate hike. But many attendees characterized this action as "too little, too late." The delegation that had driven hundreds of miles from San Diego to the meeting in San Francisco, staged a silent walk-out, to demonstrate their displeasure.

Once the proud home of the aerospace and defense industry, and leading-edge research laboratories in nuclear and fusion research, San Diego's electric utility now is forced to ask businesses around the state to "help out": lower their electricity usage, stop work, and send employees home, in order to avoid rolling blackouts, which would be a threat to life and safety.

The crisis has reached the point where state legislators in California, who had "led the nation" by voting unanimously to deregulate the state's electric utility industry four years ago, now say that out-of-state conglomerates are exploiting the shortage of electric generating capacity in the state, charging customers rates that are unconscionable, and that may be illegal.

The California state legislature will be entertaining bills this summer to roll back electricity rates, as well as to prevent the full deregulation of the state's remaining partially regulated electric utilities. There are proposals that the state buy back the power-generating plants that deregulation forced all of the local utilities to sell, and buy up the generating facilities that are for sale. The revolt against deregulation is on.

On Aug. 8, the Utility Consumers Action Network in California announced that it will be airing a series of advertisements on television, telling San Diego electricity customers to pay only what they paid last year, which is about 3¢ per kilowatt-hour, rather than the 17.6¢ rate on their current bill. The ad begins with an irate customer who says, "They lied to us about deregulation. They said our rates would go down, but they doubled." The ad includes advice to consumers from San Diego Board of Supervisors Chairman Dianne Jacob (a Republican, and hardly a rabblerouser), to just "pay what you did last summer," when your electricity bill arrives. Her reply to threats of retribution was: "What are they going to do? There are 3 million of us."

For two dozen other states that are in the process of moving toward electric utility deregulation (see **Figure 1**), California gives a glimpse of the nightmare that full deregulation will bring. But even this summer, California is not the only state suffering shortages of power, and exorbitant prices for what is available (see box).

During a four-day heat wave in May, spot market prices for a megawatt-hour of electricity on sale to distributors went from the normal $30, to $3,900 in New York City. Consolidated Edison, the electricity distributor and formerly regulated generating utility for the city (before deregulation), reported in June that its costs were up 40% over last year (with no heat wave), because the wholesale price had skyrocketted in the whole region.

On Aug. 3, the New York Power Authority asked government and business offices to cut demand, offering them $40 for each kilowatt of "saved" power. The only reason there have not been rolling blackouts in the New York region, is that it has been an unusually cool summer, with the temperature

FIGURE 1

States Where Steps Have Been Taken Toward Electricity Deregulation, as of July 2000

Source: Electric Power Supply Association.

during July never reaching 90°F.

In New England, the price for a megawatt-hour of power reached $6,000 on May 8. On July 26, the Federal Energy Regulatory Commission decided to implement a $1,000 cap for "competitive" wholesale power markets in New York and the Northeast, to try to prevent price gouging. This "cap" is far from a bargain, being *two orders of magnitude* higher than before deregulation began.

On June 29, a "code yellow" alert was issued in Nevada, with requests to reduce consumption, mainly as a result of supply problems in the entire west. On July 12, State Sen. Joe Neal (D-Las Vegas) asked the appropriate state legislative body to draw up a draft bill that he would submit, to halt the deregulation of Nevada's electricity industry, slated to get under way before the end of this year.

Supply and Transmission Weak

Beside inadequate generating capacity, this summer has revealed that the electricity transmission system, which allows generating companies to buy and sell power as they need it, is a critical weak link in the chain of the power grid. When California reached a demand higher than its supply, the

'Those Shocking Electric Bills'

"Many New Yorkers stared at their electric bills this month in confusion and disbelief. The cost of electricity distributed by Consolidated Edison in June went up about 40% over last year. July's bills are expected to be 30% higher than a year ago—all despite a summer so temperate that even fans cooled lazily on their lowest speed.

"The reasons for this sudden spike in electric costs include not only higher fuel prices but also dramatic increases in the use of electricity because of the booming economy and no comparable increase in the amount of power being produced. But the main underlying cause is the deregulation of the power industry in New York and many other states over the last few years."

—*New York Times* editorial, Aug. 8, 2000

TABLE 1
Net U.S. Summer Electric Capacity*
(Megawatts)

	Total***	Change	Utility**	Non-utility	Utility Additions	Non-Utility Additions	Total Additions
1995	769,517	—	706,611	63,406	5,752	—	—
1996	776,199	+6,682	709,942	66,257	4,786	1,800 (est)	6,586 (est)
1997	778,513	+2,314	711,889	66,624	2,556	1,750 (est)	4,306 (est)
1998	775,885	–2,628	677,800	98,085	458	3,002	3,460
1999	780,379	+4,494	639,143	141,236	3,182	1,312	4,494

*Net Summer Capacity is the expected hourly output expected to supply net summer capability.
**Includes investor-owned utilities, municipals, and Federal power marketers, such as Bonneville Power
***Capacity totals plus new additions may not add because of capacity retirements each year.
Source: Energy Information Administration, U.S. Department of Energy.

Washington State-based Federal Bonneville Power Authority offered to increase production at its hydroelectric dams, for export. The transmission capacity was not there for California to import it.

Insufficient transmission capacity, in a period of increased demand during the summer heat in Texas, has prevented the movement of power from one part of the state to another, requiring the state-wide transmission grid operator to issue a "level 2" transmission emergency alert on July 19, and another on Aug. 2.

Supply shortages are the ultimate cause of the electric power crisis. As **Table 1** illustrates, for the past five years, there has been a virtual national stand-still in total generating capacity. Between 1995 and 1999, a paltry 10,800 megawatts (MW) of net new capacity have been added to the power grid, on a total base of over 750,000 MW. This represents a less than 1.5% increase *over five years*. At the same time, average demand for electricity has been growing at more than 1% *per year,* and peak load demand, during hot summers and cold winters, has been growing at twice that rate, in some parts of the country.

In May, the North American Electric Reliability Council (NERC) published projections showing that under "normal" conditions, that is, a summer that was not too hot, and a 1.7% increase in peak demand, six of the ten NERC regional systems would have reserve margins below the 15% considered to be prudent by the industry. The crisis in electricity will not be solved until there is a recapitalization of the industry, primarily to build new generating and transmission capacity.

But shortages, caused by deregulation itself, as will be seen below, are not the only reason for price hikes, and certainly do not account for the extortion-level prices triggered by deregulation this year. As Richard Freeman's article in this issue makes clear, the reason the electric utility industry was regulated in the 1930s under President Franklin Delano Roosevelt, was that the President understood that providing electric power to every citizen, reliably and at a reasonable price, is a part of the government's responsbility to provide for the "general welfare," and is an underpinning of the economic growth of the nation.

Before FDR's regulatory policies, the Wall Street bankers and financial interests who ran the power industry had no interest in serving the public; their interest was to pursue, using any manner of manipulation, their own gain. The relatively small amount of electricity supplied in the years before regulation, was unreliable, priced entirely by the financial conglomerates that owned the capacity, and non-existent in rural and poor regions where it was considered "unprofitable" to provide it.

Return of the 'Robber Barons'

As is spelled out in John Hoefle's contribution to this report, the same financial interests that prevented the United States from having a universal and reliable power system before regulation, are now being given a free hand to repeat history. They are making a bundle doing it, and a company closely associated with the Bush family, Enron Corp., is taking the lead in the killing.

The fact that multithousand-dollar prices for megawatts of electricity has little to do with "competition," has led to calls to investigate price fixing, "gaming" (the witholding of capacity to drive up prices), and other manipulations of the market by multi-state, multibillion-dollar holding companies.

Figures from the California state regulatory authorities reveal that while prices were tripling to San Diego customers, on many days the demand for power was no higher than last year! Where was the law of "supply and demand"?

By the beginning of July, California Gov. Gray Davis instructed the state's Attorney General to investigate any illegal "market" activities, responsible for the spikes in spot market prices. After receiving letters from angry citizens and California elected officials, all the way up to the Senate level, the Federal Energy Regulatory Commission (FERC) announced on July 29 that it would investigate whether there is actually "competition" in the bulk power markets. Its report is due on Nov. 1.

In the middle of July, after more than a thousand workers in western mines, paper mills, and aluminum and copper plants had been thrown out of work, because these energy-intensive industries were losing money when electricity prices soared, Montana Sen. Max Baucus (D) asked the Federal Bureau of Investigation and the U.S. Department of Energy to investigate the West Coast price spikes, to determine whether there was any illegal activity.

While local and state policymakers are now under the gun to make right a disastrous policy, national officials continue to peddle more poison as the cure for the patient. Energy Secretary Bill Richardson, who spent the spring holding energy conferences around the nation, warning of shortages this summer, repeats that the solution is more deregulation, but on a Federal level. President Clinton's response to the California crisis in early August was to ask government facilities to cut back on their use of electricity! Federal policy today is no different than that during the Jimmy Carter Administration of the 1970s: Conserve energy to avoid shortages, and turn the industry over to the "free market."

In 1995, *EIR* predicted that under deregulation, "electricity will become the latest commodity to be used as an object of financial speculation." The quickest way to turn the United States into a Third World country, we warned, "would be to destroy the highly reliable and affordable electricity provided by the public and private, regulated utility industry." Many states did not heed the warning.

But now there is a growing consensus that deregulation is not living up to its promise of cheaper electric power. Worse, it is threatening the reliability of the power grid, while lowering everyone's standard of living through inflationary price gouging, and the increasing possibility of supply interruptions.

For the elderly and other people on fixed incomes, this is not an inconvenience, but a threat to their very lives. San Diego Mayor Susan Golding has stated that pensioners in her city have turned off their refrigerators to avoid receiving massive electricity bills.

There is a well-placed fear that the energy crisis will get worse before it gets better. Even before next year's summer electricity crisis hits, this coming winter will present homeowners and businesses with the likelihood of not only more expensive, but short supplies, of natural gas. As detailed in an accompanying article, this artifically created crisis will threaten the health and welfare of the population in the winter, as well as continue to drive up the price of electricity.

More and more people are realizing that they have been taken for a ride, in turning over this critical infrastructure to the greed of financiers and "stakeholders," leaving citizens unprepared for the vagaries of the weather, and the unpredictable, but lawful, operating problems in this vastly complex system.

The fight is spreading to stop deregulation. It can not be won too soon.

California: A Case Study in Deregulation

In 1996, when the California state legislature passed the bill to deregulate the electric utility industry, the Federal government had already taken the first steps. The FERC had, four years earlier, mandated that utility companies, which had paid for and built transmission wires and towers, would have to open them up for power transmission by other producers.

As early as the 1970s, President Carter had signed into law the Public Utility Regulatory Policies Act, which mandated that his favorite small-scale "renewable" sources, such as wind and solar energy, be allowed to "compete" with fossil- and nuclear-fueled power plants. These inefficient, and uneconomical energy sources were actually designed to help reduce consumption, by raising prices (even though they were subsidized), and forcing people to conserve, in order to reduce demand, and the need for new capacity. The regulated utilities were forced to purchase this more expensive power, to promote the anti-growth political agenda of the Administration, and of the Club of Rome, one of the principal oligarchical propaganda outlets for Malthusianism.

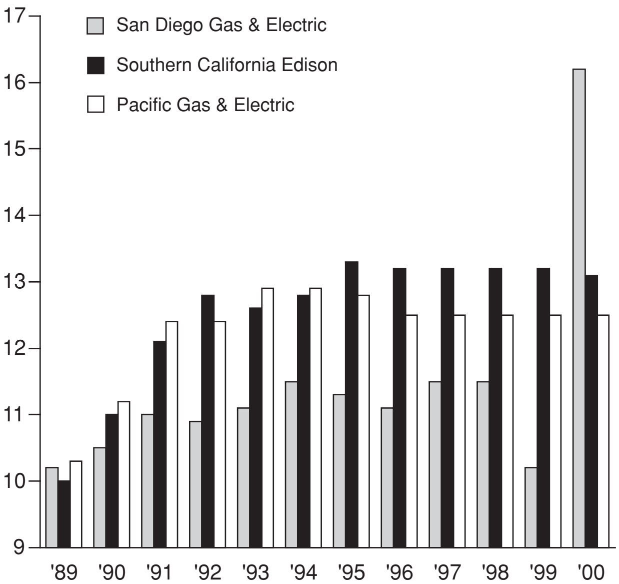
In 1995, EIR *predicted that under deregulation, "electricity will become the latest commodity to be used as an object of financial speculation," destroying "the highly reliable and affordable electricity provided by the public and private, regulated utility industry." Many states did not heed the warning.*

In 1993, the Resource Data Institute estimated that the forced purchase of power from these "independent power producers," was costing Southern California Edison customers alone, an extra \$800 million per year, because the utility had to buy solar energy-produced power at 15¢ per kilowatt-hour, which was five times what it would have to pay for wholesale power otherwise.

The 1996 California state law mandated that the vertically integrated industry, in which a power company produced the electricity, distributed it to homes and businesses, and billed and serviced the customer, be broken into pieces. On March 31, 1998, the state legislature ordered the regulated utilities to divest themselves of most of their power plants, to open up the production of electricity to "competition."

Middleman power marketers, such as Houston-based, and George Bush-connected Enron, spent millions of dollars to pressure California officials, promising them that lower electricity prices would be the result of deregulation. Harvey Rosenfield, an activist with the Foundation for Taxpayer and Consumer Rights in Santa Monica, stated during the

FIGURE 2
California Residential Electricity Rates, July 2000
(cents/kWh)



Source: California Electricity Options and Challenges, Report to the Governor, August 2000.

early August 2000 crisis, that the deregulation law "was ramrodded through the Legislature in two weeks, by utility companies who donated more than $3 million to lawmakers that year."

For more than 50 years, the compact between the utilities and the states had allowed the investor-owned utility companies to have a monopoly in their service area to deliver electricity. In return, they were to provide reliable power, by building and maintaining the capacity needed. Utilities were guaranteed a fair return on their investments in new plant and equipment, which typically required up to a decade to start to generate income from the sale of power. But California allowed itself to be lured by the promises that wrecking the compact with the regulated utilities, and opening up electricity to "competition" from other suppliers, would lower prices for everyone.

On Aug. 2, the president of the California Public Utilities Commission and the chairman of the Electricity Oversight Board delivered a report to Governor Davis titled, "California's Electricity Options and Challenges." Governor Davis had requested the report on June 15, in response to blackouts in northern California the day before, the price increases in San Diego, and the state-wide wholesale price upsurges.

The report points out the results of the past ten years' policies in the state, summarized in **Figure 2.** Since the late 1980s, the residential rates for electricity have increased for all three of California's formerly regulated utilities. The reasons for this increase are not particular to California, and will be elucidated below.

But what is clear, is that this year, when the rates charged by San Diego Gas & Electric were totally deregulated—a fate planned for the state's other two utilities by March 2002—the rates nearly doubled from July 1999 to July 2000. The report warns: "The rise in bills experienced in San Diego prefigures rises that will eventually come to other California customers."

Over a matter of weeks, from mid-June this year to the end of July, wholesale prices of electricity in the state increased an average of 270%. This translated into over $1 billion in excess payments by customers for electricity. Moreover, these billions do not fund new investments in power plants or increase reliability: "They may flow solely to power producer profit margins."

'Choice' of Poisons

How did this situation come about?

To give citizens a "choice," the state mandated, in its 1996 law, that generation of electric power would be run by for-profit plant owners, who would compete for business by lowering prices, and that the state's regulated utilities' generating capacity would have to be sold, if the companies wanted to stay in the distribution business. This is described as "unbundling" their systems. The electricity produced would be sold at auction.

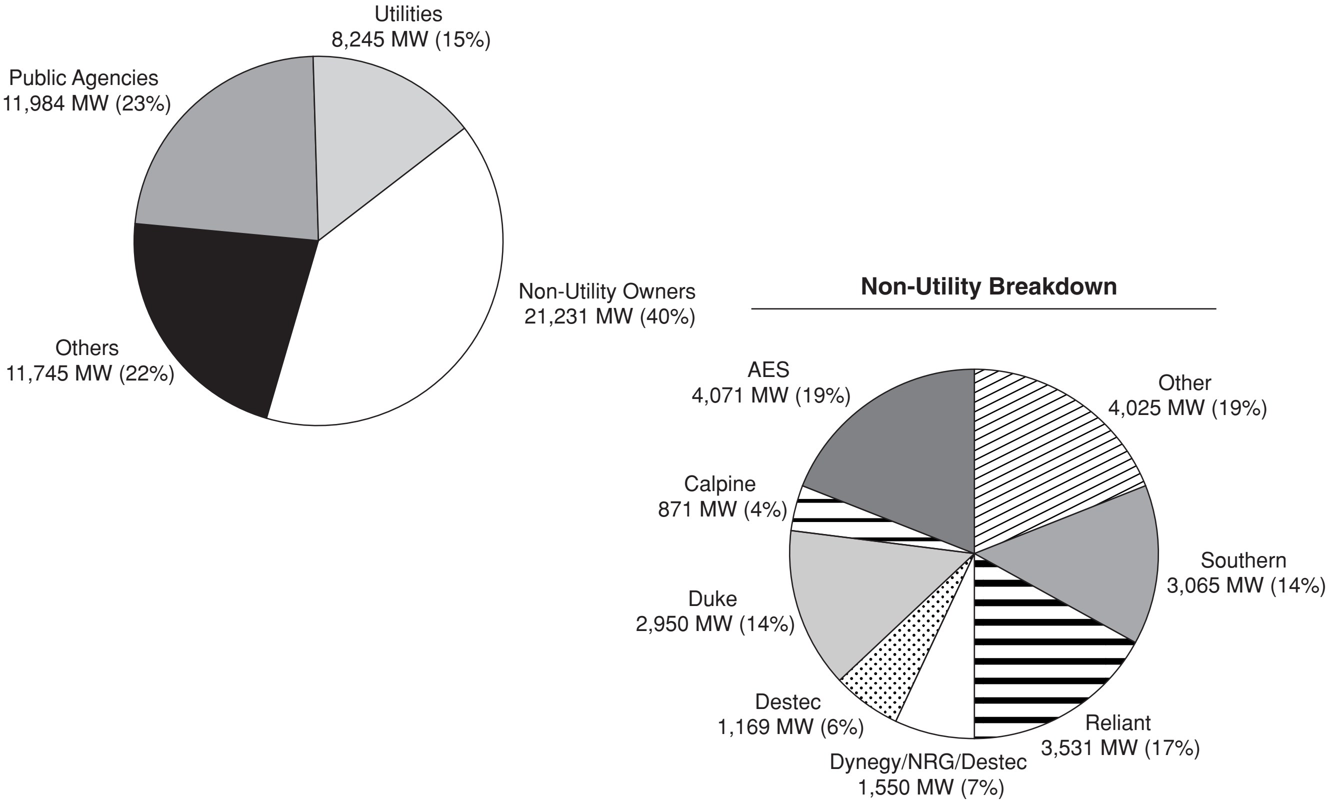
Up until deregulation, 55% of the generating capacity in the state was owned by regulated utilities, 23% was owned by municipal and other public agencies, and 22% was built by independent power producers. **Figure 3** presents the picture today. Regulated utilities now own 15% of the state's capacity, and the new non-utility generators own 40%.

Who are these unregulated non-utility generators?

They are not local companies that decided to apply their business acumen to electricity generation. They are out-of-state mega-conglomerates, which have been buying up power plants out of their own, regulated service areas, to make a higher profit in unregulated markets, like California's. They invest in holdings outside the United States, particularly in developing countries, or in the former Soviet Union, where they can prey upon the economies suffering from desperate underinvestment in power industries, and reap a higher profit than they can at home.

To operate this non-regulated system, the 1996 deregulation law created two non-public supervisory organizations which "have no duty to protect the public or consider the retail customers," according to the report. One is the Independent System Operator (ISO), which operates the state's transmission system, and the second is the Power Exchange (PX), which controls wholesale pricing policies. It has become increasingly clear that these two self-perpetuating organizations (they appoint their own members), are an integral part of the scam to fleece California's consumers.

FIGURE 3
Who Owns Electricity Generation Capacity in California?



Source: Based upon data from the California Energy Commission Database of California Power Plants.

The Fox Guarding the Chicken Coop

The report describes this new system of buying and selling power as "extraordinarily complex." One day in advance, participating generators bid power into the wholesale market auction, which is conducted by the Power Exchange. The PX estimates the amount of power needed to meet demand the next day. It then sets the price to be paid to all sellers, and it is set at the *highest* price of that hour, even if some sellers would have offered the power at a lower price.

The Independent System Operator then directs the flow of electricity throughout the state's transmission system, to meet the demand. When the supply of power purchased by the PX is lower than the demand, the ISO is responsible for making up the difference.

To meet any gap in demand, and maintain operating reserves, which is a buffer needed at all times to maintain reliability, the ISO issues an Alert if the forecasted reserves for the next day fall below 7%, and asks generators to increase their power bids. If forecast reserves fall below 7% on the current day, the ISO issues a "Warning," and begins buying power supplies directly. But if the *actual* reserves fall below 7%, then 5%, and then 1.5%, the ISO issues a Stage 1 (then 2, and then 3) Emergency, which begins with public appeals for conservation, and ends with rolling blackouts, where electricity is cut off to parts of the service area in rotation, for designated periods of time. So far this summer, the ISO has issued nine Stage 2 Emergencies.

The ISO supposedly limits the top price that wholesale purchasers will be charged for electricity with price caps, which must be approved by the FERC in Washington. But in times of emergency, the ISO, which is responsible for keeping the grid functioning, is faced with the choice of purchasing the power at whatever outrageous hour-by-hour real-time spot market price the sellers are offering, or issuing emergency alerts, and cutting off power.

Currently, the law requires that California utilities purchase almost all of their power through the ISO and the Power Exchange. Some longer-term bilateral contracts, with stable prices between generators and distributors, are allowed for individual, large customers and marketers. While other states have established supervised ISOs to regulate the flow of electricity through the transmission system, only California has an ISO comprised of stakeholders (who benefit from higher electricity prices), rather than an ISO that is a public agency.

This inherent conflict of interest has now become an issue in the state. The Public Utilities Commission, in its report to the Governor, examined carefully why California's prices are now so high. The increase in the state's wholesale electricity prices over the past year, the PUC report reveals, is not explainable simply by increased costs to the producers, extremes of weather, higher volumes of power produced, or a higher price cap. Comparing June 29, 1999 to June 29, 2000, the report states that the peak loads were comparable, as were sales volumes on the Power Exchange, yet the price was sevenfold higher this year.

The report's researchers found that during the peak demand hours this June, 3,000 fewer megawatts of power were supplied in the day-ahead market. "This suggests sellers may have been withholding power from this market in order to drive up prices in other parallel markets," meaning the real-time spot market. The report poses the question of whether suppliers could have colluded "to drive the prices higher," gouging consumers.

This year, nearly 10% of the demand load in California was supplied through real-time markets, at prices that were 50% higher than the already astronomical price on the day-ahead Power Exchange, which had risen from $49.56 last June to $522 this year. Last June, the price cap was $250 per megawatt-hour. This June, the cap, thanks to the ISO, was three times that. An official with San Diego Gas & Electric remarked on Aug. 1, that if a $250 cap had been in effect in June and July this year, the company would have saved 37% on its purchases of electricity, and customers would have saved $99 million.

Why wouldn't the ISO and Power Exchange be implementing policies to make sure power was available to consumers at the lowest possible price?

The report reveals how dangerous the decoupling of accountability from control has been, analyzing where the allegiances lie among the ISO and PX board members. On the ISO board, only 2 of the 27 members represent the interests of residential consumers. On the PX board, the figure is 2 out of 25. On the ISO board, there are at least seven members who directly represent non-utility and private marketing interests, including Enron. On the PX, the number is comparable.

ISO Board Chairman Jan Smutney-Jones, for example, is the executive director for a group of energy wholesalers who produce about 40% of the state's electricity! These non-regulated generators and power marketers have made out like bandits, in their extortion racket against Californians this summer.

Sempra Energy, the parent company of San Diego Gas & Electric, announced on July 27 that its second-quarter income rose 34%, to $110 million. Income at SDG&E actually fell 15% during the quarter, because higher billings to customers had not yet caught up with the outrageous price the distributor was paying for power. But Sempra's energy-trading unit was making a killing, as the number of trades skyrocketted due to shortages. The trading division's net income jumped 1,233% from April through June. In fact, the company's generation unit showed a rise in net income of 200%, because it owns part of a Nevada power plant which sells (exhorbitantly priced) electricity in California.

Similarly, Enron Corp., the nation's largest distributor of energy, announced a 26% increase in earnings on July 24. This increase was not due to investments in new power plants, but mainly "investments" in entertainment. As a matter of fact, during the second quarter, Enron sold $55 million worth of interests in power plant projects, getting out of some markets where it became obvious that it could not make sufficient profits, because, unlike California, many states had taken precautions to protect their consumers.

The report states that the group of conglomerates that sell power on the California market "benefitted substantially from the summer's unprecedented wholesale electricity price run-up in California." But it is unclear whether there are grounds to prosecute companies for their behavior. According to an executive from Pacific Gas & Electric, which must buy its power on the Power Exchange, "If you've got the only Beanie Babies in town, you can charge whatever you want. . . Is that [price] gouging? I don't know."

All Utilities at Risk

In addition to the suffering the free-roaming producers and marketers have brought to the people of California, as the price for wholesale power rises, the two large remaining semi-regulated utilities in the state—Pacific Gas & Electric and Southern California Edison—are put at risk, because they could be liable for billions of dollars in excess generation costs this summer, which they cannot recover.

Under the state's deregulation law, their rates are frozen until March 2002, or until they pay off their debts. This freeze was enacted to prevent them from raising rates in this transition period, while they have to pay off, or write off, debt and other costs that will make them uneconomical, or "uncompetitive," under full deregulation. The report points out that the losses they are incurring are only being balanced against the profits the utilities are receiving, mainly from the *nuclear* generating units that they still own.

One of the recommendations by the report to the Governor, is that the boards of the ISO and PX "should be comprised of members who are appointed by the Governor or other lawmakers, rather than comprised of 'stakeholders.' No member should have a conflict of interest. Moreover, the law should be modified to provide that the duty of the boards is to provide [for] the interests of the State of California, its consumers, and economy." Sounds more like a return to the "general welfare," than deregulation.

IMF and WTO Force Worldwide Deregulation

The many nations that are being bludgeoned by the International Monetary Fund and the World Trade Organization, to relinquish their sovereignty and privatize their electricity infrastructure, should carefully study the case of California, before they agree to do so.

As part of its package of austerity-driven "conditionalities" for developing nations, and those formerly part of the Soviet Union, the IMF includes the selling-off of electric capacity to private interests, and its deregulation from government oversight, to control by "market forces." The practical result of this policy is to turn the national patrimony of these nations over to foreign-controlled conglomerates, which have no interest in the future economic development of their new "clients."

Two examples suffice.

At the end of July, an IMF mission concluded a two-week visit to one of the poorest countries in the Americas—Honduras. The delegation insisted that the partial privatization of Honduras's electrical services, which the government had already begun, must be total. At the present time, more than half of the nation's 6.4 million citizens, especially those in rural areas, do not have any electrical service at all. Now it will be left to the "free market" to extend service to Honduras's poorest, which did not happen in the United States, and will not be "profitable" anywhere else.

Using its muscle as the largest creditor to Bulgaria, the IMF has insisted that the government in Sofia restructure its energy sector to "curb state subsidies, and inefficient production, and attract key investors," Reuters reported on July 13. Several officials from the state-run National Electricity Company resigned before the start of the reform. Local media warned that privatization would lead to power shortages, but the government has forged ahead.

So far, the Bulgarian government has broken up the "monopoly" of the NEC and created seven state power firms for distribution. The next step is to sell them, and the generating assets, to private interests, including the Kozlduny nuclear power plant, which produces half of Bulgaria's power.

At a hearing held by the International Trade Commission in Washington, D.C. on June 6, representatives from the National Electrical Manufacturers Association (NEMA), called on all 136 member-countries in the World Trade Organization (WTO) to deregulate their energy sectors. "The proper government enforcement role," NEMA president Malcolm O'Hagan told the Commission, is not planning for resources, or being responsible for the growth of the energy sector, but "enforcing existing efficiency standards for products."

O'Hagan proudly pointed to the privatization of electricity sectors in Brazil, Canada, the European Union (which will complete full retail competition by 2003), Australia, and Japan as models for the rest of the world.

Sitting next to O'Hagan as he pronounced these "models," was Richard Kean, vice-president and CEO of Enron Corp., the Bush-dominated company which is spearheading electricity deregulation in many of those countries, and in many states of the United States.

But electricity deregulation *did not* start in the United States; rather, it was Great Britain, in the late 1980s, that began this "experiment." The result? It was reported on Aug. 5, that according to the British government, the poor have seen no benefit from the deregulation and sell-off to private interests of Britain's electricity sector. About 5 million households in Britain, out of a total of 20 million, are classified as suffering from "fuel poverty." This is defined as having to spend 10% or more of the household income just to heat a home. In this formerly industrialized nation, an estimated 30,000 people die of the cold each year.—*Marsha Freeman*

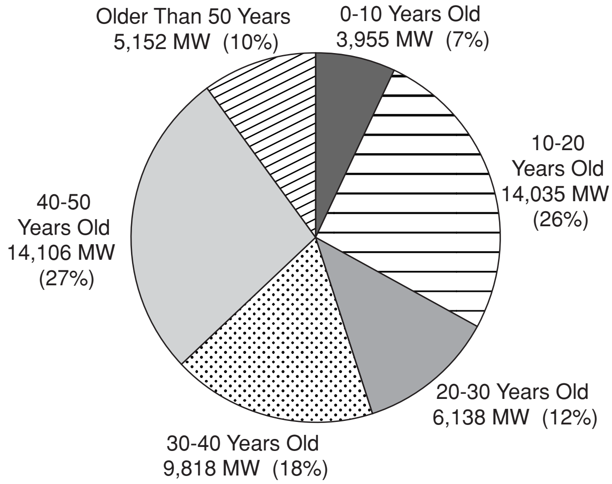
What Can Be Done?

There are two basic problems in California that require solution, before the state can return to an electricity delivery system that serves the needs of the people.

One is to begin the rapid construction of new power plants. Since the 1996 vote for deregulation, peak load demand in the state has grown by an accumulated 5,522 MW. The net capacity additions, to meet that demand increase, were 672 MW, over the same period of time. As a result, California imports about 25% of its electricity from neighboring states. If those states cannot spare the power, or the transmission lines cannot accommodate the transport, there are shortages. Over the past decade, there has been no power plant built in California larger than a small 50 MW one. During that time, the population grew by more than a half million.

Policies in the state over the past 20 years have discouraged new plant construction. These have included environmental regulations—the strictest in the nation—and "public participation" (read: disruption) in the power plant siting and permitting process, which makes the construction of new capacity almost impossible. In the 1990s, the report to the Governor points out, regulators abandoned Integrated Resource Planning, which was used to plan for needed new capacity. Now, no one has any responsibility for planning ahead for the

FIGURE 4
California's Power Plants Are Aging



Source: California Energy Commission.

state's ability to provide power.

The need for building new capacity is urgent, as seen in **Figure 4.** More than half (55%) of California's existing capacity is over 30 years old. Ten percent is more than 50 years old. The impact of the aging is that more plants will be out of service for longer periods of time, more often, for unscheduled maintenance. Many of these plants will be retired over the next few years, shrinking the capacity further.

Deregulation has aggravated the problem. For-profit unregulated companies find it more "profitable" to run power plants into the ground, than to make the investments necessary to ensure their long, productive life. Even in states where full deregulation has not yet been implemented, like New York, necessary maintenance has been deferred, due to the uncertainty of making a return on the investments when the price of power that can be sold in the future is unknown. Last year, Con Edison in New York deferred the replacement of a steam generator at one of its Indian Point nuclear reactors, for that reason. When the generator sprung a leak in a water pipe in February, the plant had to be taken off line for repairs, and is still out of service. Con Ed is paying tens of thousands of dollars per day to replace the lost electricity, during the summer peak demand.

Deregulated companies also find it more "profitable" to take older, more costly, facilities out of service for baseload, year-round operation, and only have them available when summer peaking periods allow them to charge higher prices. (Under the regulated system, the cost of running these more expensive plants was folded into the overall rate the power company was allowed to charge.) This has led to a decrease in the on-line capacity available throughout the nation, as more than 110,000 MW of utility capacity has been sold to non-regulated companies since 1997. More than 100,000 additional MW is currently up for sale, as more states get ready for deregulation.

In response to this supply crisis in California, it has been proposed by State Sen. Steve Peace (D-El Cajon), and recommended by the Public Utilities Commission, that the Governor use his authority to expedite the construction of the ten or so power plants that are in the process of being licensed in the state. Onerous environmental restrictions can double the time it takes to bring a new plant on line. While such an action will help, it is important to examine who is proposing to build this new capacity.

Regulated electric utilities in the state are not allowed to own generating capacity. Therefore, as they are in the process of selling off the remainder of what they built, non-utility, unregulated conglomerates are "offering" to build power plants, seeing the supply shortage in California as a potential goldmine. Since, as has been shown above, the supply does not really determine the price, more power to sell means higher profits.

However, the track record of non-utility suppliers should make the buyer beware. The Electric Power Supply Association, based in Washington, D.C., which promotes deregulation, states that as of June 2000, "competitive" power suppliers have announced the potential development of more than 178,000 MW of merchant power to be completed by 2007. But according to Richard Schwartz from Platts/UDI, which tracks the industry, the "non-completion rate is 50-80%" for the non-utility generating companies. Others have described the announcements from these companies as "release-a-watts," rather than megawatts, because the electricity only exists in their press releases. "It costs you about $5 to put a press release together and send it out," stated Harvey Campbell, from West Coast Energy. "These plants can disappear as soon as they appear."

Until new generating capacity comes on line in California, which will not be, at best estimate, for another two or three years, the state can try to cap the price of energy that can sold by the ISO, in order to control prices to consumers. But as soon as the ISO hinted that the cap of $500 per megawatt-hour of power might be lowered to $250, the non-regulated power companies (40% of the state's supply) threatened that they would go elsewhere to sell their power, because they could "get a better price."

Return to Regulation

While it would not be an easy task to un-do the deregulation that the state has implemented, there must be a return to regulation by government to control the price charged to consumers, to prevent suppliers from manipulating the market for their own gain, and to establish mandatory "rules of the road," which have been called for nationally, to maintain the reliability of electricity delivery, regardless of any detrimental impact on individual suppliers.

The report to the Governor takes some steps in this direction, recommending that the ISO and PX function in the interest of consumers (which will require a change in the deregulation statutes); that Federal regulators, who must approve state market changes, take steps to protect consumers, such as interstate wholesale market price caps; that federal regulators declare that the state's power markets are *not* competitive; that the governor create a California Energy Council, modelled on the National Security Council, to unify state action to resolve problems; that he enhance the state's enforcement for power plant maintenance, and against price manipulation and power gaming; and so forth.

(On Aug. 7, FERC Chairman James Hacker indicated that the Federal regulatory body will likely reject Governor Davis's proposal to cap the California Power Exchange's one-day-ahead rate at $250, as has been done for the ISO's day-of-market price.)

In short, the report finds California's deregulation experiment to be a failure. All of the above recommendations require the state government to re-institute regulations, and bring back control over a system that used to provide its citizens with reliable electric power and critical infrastructure, which deregulation has destroyed.

Why the Utilities Were Deregulated

Why were otherwise sane state legislators and public utility commissioners in more than half of the states of the Union stampeded into tearing apart their electricity utility systems?

Electricity deregulation, as the map in Figure 1 shows, has been very popular among the coastal states, such as New York, New England, and California. The delivered cost of electricity had been steadily declining through the 1960s, thanks to economies of scale, technology improvements, and the coming of age of commercial nuclear power, during a time when real economic growth created a 7% per year increase in demand. But prices started an upward climb when the oil price shock of the mid-1970s quadrupled the cost of oil, sending electricity rates in coastal states that import petroleum, through the roof. Other fossil fuels followed the upward trend.

As utilities planned prudently to increase their reliance on cheaper nuclear energy, and reduce their dependence on fossil fuels, a series of shocks at the end of the decade forced nuclear power costs to increase, as well. **Table 2** indicates why electricity prices started to increase for consumers using nuclear power. The actual cost of completed nuclear plants increased, in some cases, by an order of magnitude, due to two factors.

First, Federal Reserve Chairman Paul Volcker's Columbus Day 1979 hike in interest rates, into the double-digits, suddenly shot the cost of utility borrowing to build new capacity from the tens to the hundreds of millions of dollars. The electric utility industry is the most capital-intensive industry in the country, requiring billions of dollars of investment annually, just to maintain capacity that is in line with demand growth.

TABLE 2
Projected and Actual Cost of Nuclear Power Units
(billions $)

Unit	Megawatts	Initial Cost Estimate	Actual Cost
Millstone III (Massachusetts and Connecticut)	1,150	.400	3.82
Limerick I (Pennsylvania)	1,055	.344	3.8
Wolf Creek (Kansas)	1,055	1.03	2.93
Susquehanna I (Pennsylvania)	1,050	.665	2.05
Susquehanna II (Pennsylvania)	1,050	.720	2.05

Source: Public utility commissions in the respective states.

Second, the gear-up of the anti-nuclear movement in the late 1970s, partly paid for by the oil multinationals that had raked in a fortune from the oil price hike, created a class of people known as "intervenors," who disrupted the process of completing plants, to the point where utilities spent 8-10 years building the plant, and then a decade in court trying to get the go-ahead to operate it.

Even with the price shocks to the fossil fuel and nuclear suppliers, electricity rates hit their peak in 1983, and then started to decline. But the effect of the Reagan free-market economic "revolution," the FERC transmission deregulation of 1992, the break-up of the Soviet Union and the attendant cutbacks in the leading-edge U.S. aerospace/defense sector, and the turn from real industrial expansion and economic growth to the "new economy," based on speculation and financial thievery, fueled an upward climb in electricity prices, and a collapse in investment in the industry.

Large companies fighting to stay in business in the declining economy, threatened states such as California and New York that if they did not offer them bargain-basement electricity prices, they would relocate to the sunny, unregulated, and non-union south, or to other states with low rates from hydroelectric power. Suddenly, industrial states found themselves in a bidding war to offer their large customers the lowest power rates. So they let in the Enron salesmen, who were promising bargain-basement prices.

The clinching point made by the power marketers and free marketeers to elected officials, was that the reason rates in California and New York were the highest in the nation, was that the greedy utilities had "overbuilt," putting on line too many power plants, accumulating too much debt, and passing the cost of those unneeded plants on to the consumer. Why, there is so much excess capacity, they claimed, if you open up the market, these expensive nuclear, oil-fired, and older generating facilities will not be competitive, but will be replaced by cheaper, newer natural-gas-fired plants, and everyone's bill will go down.

The primary assertion itself is a lie. Utilities did not "overbuild." Capacity was growing in the 1960s because demand was growing at a healthy 6-7% per year. To be responsible, the utilities, and the state regulatory agencies that oversaw them, make plans ten years ahead of time, to make sure that there would be enough capacity in the pipeline for the future demand growth. No one could foresee that prices would soar, and demand would slow down, through the 1970s, thanks to the political manipulation of fossil fuel prices.

No one could predict that the combination of financial interest-rate penalties, the anti-nuclear movement, and the slowdown in the economy in the 1980s, would lead to utilities abandoning half-built nuclear plants, which would never produce an income, but had debt payments due that still had to be honored.

To blame the utilities for "overspending" to build enough capacity, to meet demand and provide a proper margin of reserve in the future, is like saying that it is a waste of money to build dams for flood control this year, because it may not rain a lot for the next decade. Where are all of those "extra" and "unnecessary" power plants now?

Deregulation is a failed policy. California Public Utilities Commissioner Carl Wood has called it a "mistake," and this summer's crisis "the predictable consequence of an ideologically driven . . . policy." The outcome was predictable, because deregulation was never intended to lower electric power rates, much less enhance reliability, for the vast majority of the nation's consumers.

Through deregulation, electricity has been turned into a "commodity" ("like pork bellies," commented one executive), open to the same abuse and financial manipulation as the oil industry, the cartel-controlled food industry, the futures market, and all forms of speculation. The difference is that electricity, unlike any other form of "commodity," cannot be stored during good times, to be used in times of need. When there is not enough, there is an immediate, life-threatening crisis. This critical infrastructure must be in place, and function properly and efficiently, *every minute of the day and night,* or this country cannot function at all.

It is ironic that newspaper accounts and foolish "economists," blame increased electricity demand from the booming "new economy" of computers, mobile phones, and the Internet for the electricity shortages California has faced this summer. If companies in California had been building power plants, rather than mobile phones, there would not be a power crisis, but instead the basis to rebuild the high-technology and R&D capabilities of one of the nation's most economically important states.

Electricity Deregulation: Carter-Gore Policies, Bush Profits

by John Hoefle

The conglomerates that are turning legislators' heads for electricity deregulation, and for then buying up electric generating capacity and turning deregulation into a "gaming" casino of super-profits and super price increases, are led by the Enron Corp., a Texas-based Bush-Baker-Harriman interest.

Enron, closely connected to former President George H.W. Bush, is the biggest contributor to Texas Governor and Presidential candidate George W. Bush, having donated over $555,000 to his political career.

This and other Bush-Baker-linked companies, ironically, are making a killing implementing energy deregulation policies which originated with Jimmy Carter's Trilateral Commission administration, whose heir is Al Gore today.

The former British Secretary of State for Energy, Lord Wakeham, is also on Enron's Board of Directors; it was Britain, during Lord Wakeham's tenure, which launched the electricity deregulation swindle.

Enron Corp., based in Houston, is the leading company in the global electricity deregulation market and a major player in the energy derivatives market. The company has seen its market capitalization rise from $13 billion at the end of 1997 to $60 billion today, thanks to a major presence in the United States, Europe, Ibero-America, Africa, the Middle East and Asia. The company is actively transforming itself from an industrial company into a trading company, with trading rooms in its Houston headquarters which rival those of Wall Street investment banks. Its policy, and that of its powerful sponsors, is to insert the company as a middleman between energy producers and energy consumers, skimming a portion of the billions of dollars spent each year on energy into its coffers.

Enron was formed from the 1985 merger between natural gas companies Houston Natural Gas and Omaha-based InterNorth (née Northern Natural Gas), forming the nation's largest natural gas pipeline company, with 23,000 miles of pipelines stretching from California to Florida and Mexico to Canada. The new company, named HNG InterNorth, was briefly based in Omaha, then changed its name to Enron and moved its headquarters to Houston.

Enron's rise from a relatively unknown pipeline company to an international energy conglomerate can be traced back to 1989, when it opened an office in London to take advantage of the deregulation of the electricity and gas markets being developed and tested in Britain; the lessons learned were then spread to the United States and the rest of the world, as the Brits pushed their deregulation scheme globally, using companies like Enron to disguise it as a U.S.-led operation.

Enron's fortunes surged when President Bush left office and members of his Administration began to cash in on deals many regarded as flagrant influence-peddling. Following his defeat in the 1992 U.S. Presidential election, according to a 1993 *New Yorker* article by Seymour Hersh, George Bush made a private trip to Kuwait that was partly devoted to peddling influence on behalf of Enron. He reportedly pitched in favor of Enron to win the 400 MWe Shuaiba North power plant contract. Hersh wrote that such a high-level push was necessary because Enron's price for supplying a unit of electricity was 11¢, against the rival bid of 6¢ by the German company Deutsche Babcock. On that trip, according to Hersh, Bush was accompanied by his two sons Neil and Marvin, as well as his former White House Chief of Staff and Secretary of State James A. Baker III and Gen. Thomas Kelley, who had played an important role in the Gulf War. Having kicked Iraq out of Kuwait, some have suggested, Bush arrived to collect his reward.

Both Baker and Kelley, along with Bush Administration Secretary of Commerce Robert Mosbacher, took "consulting" jobs with Enron shortly after leaving office. Texan Mosbacher had been general counsel to the Bush/Quayle campaign in 1992, and later was the finance chairman of the Republican National Committee.

James Baker was a power in his own right. His family law firm, Baker & Botts, had long been one of the most powerful institutional forces in Texas, representing the Harriman and Morgan interests, both of which were fronts for the British Royal Family and British financial interests.

Among today's Enron directors is John H. Duncan, a former director of the King Ranch, which had its own close ties to the British Royal Family and which played a role in the political career of President Bush. John Duncan's brother Charles was Secretary of Energy in the Carter Administration. Charles Duncan was a liaison between Dominique Schlumberger de Menil and President Carter, who jointly formed the Carter-Menil Foundation and Center.

This close relationship to the interlocking Bush/Schlumberger/British nexus is the key to Enron's success. Enron was, in effect, given a franchise by the oligarchs who control both the financial and energy cartels, to be a vehicle for global energy deregulation. These are the people who turned struggling businessman George H.W. Bush into a President, and are now trying to do the same for his son.

Enron's rise to power was also helped by Bush alumna and former Commodity Futures Trading Commission Chairman Wendy Gramm. Gramm, the wife of rabid de-regulator Sen. Phil Gramm (R-Tex.), paved the way for today's derivatives market during her stint at the CFTC, by administratively exempting many futures transactions from the legal requirement that they be traded only on organized exchanges. The ruling opened the door for the rapid spread of the over-the-counter (OTC) derivatives market. Wendy Gramm is now a director of Enron.

Enron has spread its brand of energy speculation all over the globe, with operations in India, Ibero-America, Africa, the Middle East, and Asia. It also has deals with Russian gas giant Gazprom in the former Soviet Union.

In 1997, Enron bought Portland General Electric Company, a major Oregon electric utility. While Enron was promising that the move would benefit Oregonians, Enron president Jeffrey Skilling told an electric industry conference in Arizona that "you must cut costs ruthlessly by 50 or 60%." The proper approach, Skilling said, is, "Depopulate. Get rid of people. They gum up the works."

Today, Enron is a pioneer in Internet-based energy trading. In late 1999, it launched its EnronOnline web site to sell energy over the Internet, and is actively working to open up new markets, such as paper and pulp, to such speculation. It is also active in the privatization of public water supplies and treatment thorough a subsidiary, Azurix, which it took public in 1999.

The combination of political connections and speculation has proved highly profitable to Enron. In 1999, the company had revenues of $40 billion, ranking 18th among U.S. companies.

AES of Arlington, Virginia

AES, based in Arlington, Virginia, is another major player in the global energy deregulation scheme. It was founded in 1981 by Roger W. Sant and Dennis Bakke. As of 1997, Sant was the chairman of the U.S. branch of Prince Philip's World Wildlife Fund, a.k.a. the Worldwide Fund for Nature, and a director of the World Resources Institute. Sant was assistant administrator for Energy Conservation and the Environment at the U.S. Federal Energy Agency (FEA) from 1974 to 1976, and director of the Energy Productivity Center of the Mellon Institute from 1977 to 1981. Bakke was Sant's deputy at both the FEA and the Energy Productivity Center.

Other directors of AES, as of 1997, included: former World Wildlife Fund chairman and Environmental Protection Agency administrator Russell Train; John H. McArthur, a senior adviser to the president of the World Bank and director of the Cabot Corp.; Alice Emerson of the Andrew W. Mellon Foundation, who was also a director of the World Resources Institute and the Bank of Boston; Frank Jungers, the retired chairman of the Arabian American Oil Company (ARAMCO) and a director of the Donaldson, Lufkin & Jenrette investment bank; and Thomas Unterberg. the managing director of the Unterberg harris investment bank.

AES has been active in grabbing energy assets in the former Soviet Union, buying electric generating capacity in Kazakstan and Georgia for pennies on the dollar.

Dynegy of Houston

The oddly named Dynegy, of Houston, Texas, has been active in buying power plants and marketing energy products in North America, the United Kingdom and Europe. The major owner of the Houston-based company is oil giant Chevron, which owns 29% and has a commanding presence on the board of directors. Dynegy completed its acquisition of Illinova in February.

According to the company, its name reflects its "evolution from a natural gas marketing company to an energy services company capable of meeting the growing demands and diverse challenges of the dynamic energy market of the 21st Century." In 1999, the company initiated electric power marketing operations in the United Kingdom and continental Europe.

The company has interests in 31 power projects in operation, under construction, in late stage development, or pending acquisition, having combined gross capacity of 6,832 megawatts of electricity. The majority of these facilities are gas-fired and are principally owned through interests in joint ventures formed to operate the plants.

Reliant Energy of Houston

Reliant, formerly known as Houston Industries (parent of Houston Lighting & Power), is also jumping into the energy deregulation market. In 1997, Reliant bought NorAm Emergy Corp., the parent of Entex, a natural gas company.

The most prominent director of Reliant is former Bush Administration Secretary of State and Enron consultant James A. Baker III, now a senior partner in his family law firm Baker & Botts. Baker is also a senior counselor to the Carlyle Group, a Washington, D.C.-based merchant bank made up of former Bush Administration officials.

Other directors of note include: John T. Cater, a former president of MCorp, one of whose subsidiary banks, Houston's Bank of the Southwest, once included Schlumberger official Jean de Menil, the husband of Dominique Schlumberger de Menil, on its board.

Green Mountain Energy of Vermont

Green Mountain Energy of Vermont says it is "dedicated to changing the way energy is made," by pushing "renewable resources like wind, water and geothermal." The company hopes that by creating the perception that buying its high-priced electricity, consumers will be making the world a better place. Green Mountain puts up an environmentalist front as part of its sales pitch, advertising an Environmental Advisory Board featuring representatives from the Natural Resources Defense Council, the Worldwatch Institute, the Rocky Mountain Institute, the Clean Energy Group, and the World Resources Institute, but its pedigree is pure finance. The chairman of Green Mountain is Sam Wyly, a founding partner of the $3 billion Maverick Capital hedge fund group, and one of the leading financial contributors to the political career of Texas Gov. George W. Bush; Wyly and his brother Charles have donated over $222,000 to the younger Bush's political campaigns.

Green Mountain director Dianne Dillon-Ridgley is a former president of Zero Population Growth and a member of the British Oxford Commission on Sustainable Consumption.

NRG Energy of Minneapolis

NRG Energy of Minneapolis, Minnesota, a subsidiary of Northern States Power Company, has been buying power plants in the United States and the United Kingdom, and now owns all or a portion of 57 power plants with a total generating capacity of 23,000 megawatts.

FPL Group/Entergy of Miami and New Orleans

FPL Group, of Miami, the parent of Florida Power & Light, announced on July 31 that it would merge with Entergy Corp., a utility based in New Orleans.

The board of FPL includes two directors with close ties to the Bush family: Fred Malek, who served as campaign manager of Bush/Quayle '92; and Armando Codina, a business partner of Florida Gov. Jeb Bush, son of the former President.

Sithe/Vivendi of New York and France

New York-based Sithe Energies has been buying up power plants in Pennsylvania and New Jersey. Sithe is 60% owned by France's Vivendi and 30% by Japan's Marubeni Corp. Vivendi has been actively buying water companies in the United States and Europe, and recently agreed to buy Seagram's, the liquor company run by the notorious Bronfman family.

Regulation: The Fight Which Saved the Nation

by Richard Freeman and Marsha Freeman

On July 18, Sens. Phil Gramm (R-Tex.) and Charles Schumer (D-N.Y.) introduced into the Congress Federal legislation for extreme deregulation of the U.S. power grid. The bill would take the nation backwards, to the era of the 1920s, when very little electric power regulation existed, and the Wall Street-City of London financier oligarchy ran America's electric utility policy, and a good part of its economic policy, as its own fiefdom. This contributed to the speculative orgy that culminated in the Great Depression.

The Gramm-Schumer bill calls for the dissolution of the Public Utility Holding Company Act (PUHCA), which was passed by the U.S. Congress in August 1935. President Franklin D. Roosevelt, who along with other patriots had pushed for the Act, signed it into law on Aug. 26, 1935.

The PUHCA was passed—along with the Federal Power Act, which was also adopted in 1935—in one of the fiercest battles in the nation's 225-year history. The Wall Street forces demanded that they be allowed to do as they pleased, and that Federal regulation with teeth—as opposed to the state "supervision" which existed at the time—was out of the question.

During the 1920s, the financier oligarchy, led by J.P. Morgan Bank, employed speculative "holding companies"—such as Morgan Bank's two big holding companies, the United Corp., and the General Electric Corp.—to buy up, through a large number of mergers, most of the nation's electric power-generating and transmission-line capacity. It also bought up a lot of the natural resources that went into electricity generation, including coal and natural gas, and it even attempted to monopolize water sources for hydroelectric power. It obtained a hammer-lock on America's electric power generation, as was obtained over few other economic processes in history.

But this is not just another "resource" or "commodity." This is the supply of vital electrical energy, which heats and electrifies homes, drives farm processes, and powers factories, a form of hard infrastructure that is indispensable to the nation's advancement, or even continued survival.

Under the Wall Street plan, one holding company would buy anywhere from 50 to 300 operating companies. These companies generated electric power or transmitted it along transmission lines; that is, they did the actual work of altering nature for the benefit of man. Then, for speculative purposes, a new holding company would be set up above the existing holding company. The new holding company would put up only a small amount of its own money, but would buy a controlling share in the existing holding company. This built in great leverage. Through manipulation, it would collect much of the stock dividends and bond yields of the existing holding company. It would also impose fees on the existing holding company, which would, in turn, pass on the fees and otherwise loot the operating companies, in order to keep the cash flowing to the top-most level of the holding companies.

This pillaged existing physical plant and equipment. The holding companies also charged customers higher prices. In a model of operation which is known today as "shareholders' value," the U.S. electricity and power supply physical capacity was sucked up to transfer wealth to the swelling cancerous mass of speculative fictitious paper.

The Bubble Bursts

This contributed heavily to the speculative bubble, which burst in 1929. Millions of people who were common stockholders in the utility holding companies, lost hundreds of millions of dollars. Between 1929 and 1935, American power production fell by almost one-third. This decimated the economy. Despite this, the oligarchical financiers would not give up their utility holding companies, nor their control and use of the U.S. power-producing and transmitting system as a speculative plaything.

On March 12, 1935, President Roosevelt sent the Public Utility Holding Company bill, to regulate the industry, to Congress. It was sponsored by Sen. Burton Wheeler (D-Mont.) and Rep. Sam Rayburn (D-Tex.), and after its passage, it came to be known as the Public Utility Holding Company Act, or the Wheeler-Rayburn Act.

Writing about this Act, Roosevelt said, "Through the device of these pyramided holding companies, small groups of men with a disproportionately small investment were able to dominate and to manage solely in their own interest tremendous capital investments of other people's money." Elsewhere, he accused them of "looting." The Act called for breaking up the holding companies, setting the basis to pass on the soundness of the securities issued, and along with the Federal Power Act of 1935, setting up the regulation of the electric utilities, including "rate-making," which set a policy of pricing electricity on the principle of "parity pricing," as in farming. Parity means that the producer is guaranteed a price that enables him to cover his operating costs, plus a margin of surplus for investment in new and modernized plant and equipment. This system worked successfully for more than 60 years.

This remarkable achievement, won after one of the most intense battles with the forces of Wall Street in history, established the fundamental principle of the General Welfare clause of the U.S. Constitution: that the government has the right, and the obligation, to set policies that direct credit, energy, and, more broadly, all economic policy, to the effect of securing high rates of scientific and economic growth, and the cognitive and material development of current and future generations.

Now, the same Wall Street forces, having never given up on their "right to loot," are attempting to undo the achievement of the PUHCA of 1935. Here, we learn from looking at the devastation that deregulation and the speculative policy wrought on the U.S. power industry—and the entire U.S. economy—during the 1920s and early 1930s. We also look at FDR's courageous fight to regulate the industry, the benefits therefrom, and what we can apply today.

The Start of the Electric Power System

The U.S. power industry had its roots in the American System of Economics; it rejected the dictates of Wall Street. Thomas Alva Edison (1847-1931) played a major role in electricity generation and transmission. He was set on his path by the "Philadelphia Interests," the nationalist faction of industrializers, which was led by economist Henry Carey. Representing this group, William Jackson Palmer had set Edison up in 1872 to advance the work on the telegraph.

In 1882, Edison developed the nation's first central electricity generating station at Pearl Street in New York City. The steam-powered generator served 5,500 street lamps.

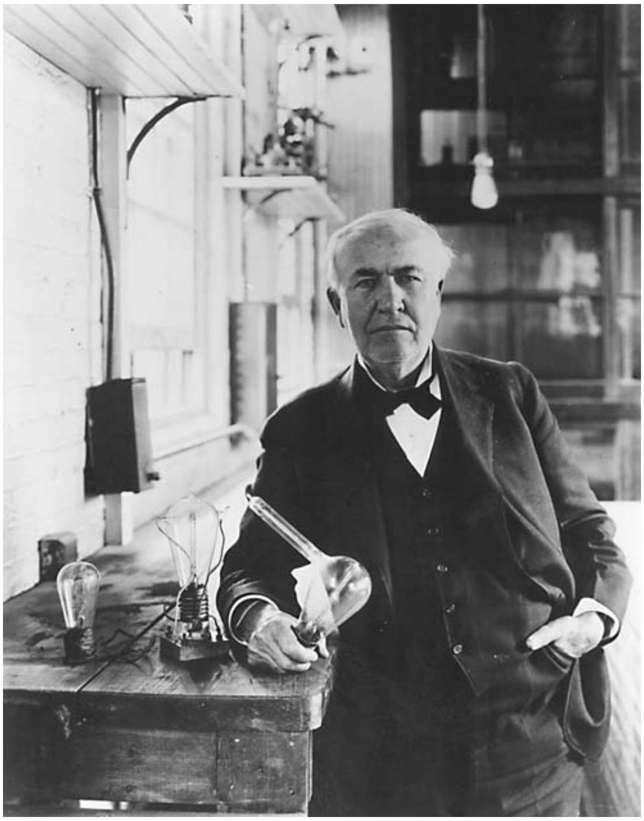
However, the financial interests of J.P. Morgan moved in on Edison. The Morgan firm, formed in London in the 1840s, represented the heart of British financier designs. In 1882, Morgan had used his financial leverage to force his way into a partnership with Edison. In 1892, J.P. Morgan pushed Edison out of Edison General Electric Co., which Edison had helped found, while at the same time, Morgan merged Edison General Electric with the Thomson-Houston Electrical Co. This newly merged company soon changed its name to General Electric. From its beginning, up through the early 1930s, the Morgan-controlled General Electric owned a substantial interest in power-generating stations in America.

The public power system, in which the generating and/or transmission facilities were owned by a public institution—either of a state, city, or municipality—grew. In 1912, there were 1,737 public power systems in America; by 1923, there were 3,066 public systems, serving one out of every eight electricity consumers. The public systems charged often one-third to one-half less for electricity per kilowatt hour than the private utilities—which did what they could to sabotage the public systems.

The Growth of the Holding Companies

The type of holding company which destroyed the country, and which Roosevelt confronted, was typified by two groups: the Samuel Insull group and the House of Morgan.

During the 1900s, if an individual bought several companies, he would often form a holding company as a legal instrument to direct them. A holding company need not be specula-



Thomas A. Edison, backed by the "Philadelphia Interests," the nationalist faction of industrializers, played a major role in developing electricity generation and transmission.

tive and destructive; it could be just a vehicle to direct companies located in several localities in one state, or in several states.

However, the holding companies shifted their character toward speculation, especially under the impress of the Presidency of Calvin Coolidge (1923-29). Coolidge promoted speculation, under the influence both of his Treasury Secretary Andrew Mellon, the patriarch of the Mellon financier interests, and of the House of Morgan. Under the rubric of a "return to normalcy," and the "Roaring Twenties," the Coolidge Presidency instituted policies that fuelled the growth of the speculative bubble, while also destroying some sectors of the real economy, such as agriculture.

In the electric utility industry, a takeover boom was launched: Between 1922 and 1927, the utility holding companies, swallowed more than 300 small to medium-sized private companies, per year. The holding companies financed the takeover of the smaller companies by issuing either new debt or new stock. The new stock issues of the utility holding companies were snapped up. As a result, the electric utilities could issue as much stock as they wished. *During the 1920s, one-third of all corporate financing in America was issued by private power companies*. While some of this was spent for physical expansion, during the second half of the 1920s, most of it was spent on financial takeovers or for speculative purposes. The private electric holding company was leading the speculative stock market boom.

The holding company did not care about electricity generation as such, but on increasing the flow of funds into the coffers of the Morgans, Mellons, DuPonts, and so forth. Consider a typical holding company, which owned 100 operating companies which generated power, to see how this worked.

The holding company bought stock in each of the 100 operating companies, whereby it owned them. It would then instruct the companies to pay high dividends, most of which would flow to the holding company, which produced nothing. The cash flow would permit the stock of the holding company to rise on the stock market, because it was showing good earnings. Based on the strength of its stock price, the holding company would undertake a new issue of stock, to take in even more money. All the while, the holding company's instructions to the 100 operating companies to make high-dividend payouts, would lead to a destruction of the financial status of the operating companies; often, this would entail a physical looting of the companies.

This would be taken to another level of pyramiding, where holding company E would own holding company D, which would own holding company C, and so forth. Thus, the dividends are recapitalized again and again, upon which the mass of fictitious stock of all the holding companies is sustained. Further, this puts a tremendous strain on the dividends of the 100 operating companies, which are the ultimate, but limited source of the dividends for the pyramided structure.

There was another method of looting: Have the holding companies charge the operating companies exorbitant fees. According to one history of the period, in 1930, the Senate Interstate Commerce Committee held hearings in which it found that utility holding companies' servicing fees imposed upon subsidiary companies often " 'milk[ed]' the subsidiaries [so that] in many instances they yielded profits ranging from 51 to 321% of the cost of the services performed."

This led to higher charges to the customer for electricity, in order to support the dividends and other rates of return on the mass of fictitious paper.

Now consider two of the three biggest power-holding-company empires in this period, the Insull empire and the Morgan empire, and how they confronted President Roosevelt.

Morgan and Insull

During the 1880s, Samuel Insull had worked for Edison, and then in the early 1890s, became president of Chicago Edison (subsequently Commonwealth Edison). During the first two decades of his presidency of Chicago Edison, Insull is said to have done a good job. At its height, the Insull empire controlled 10% of all electricity generation in America. But, by 1929, his system had more than 18 holding companies

The United Corp. in 1935: Subsidiary Operating Companies

American Superpower Corp.
American Water Works & Electric Co.
Eastern States Power Corp.
Columbia Gas & Electric Corp.
Columbia Oil and Gas Co.
Commonwealth and Southern Corp. (which included Alabama Power, Georgia Power, etc.)
Consolidated Gas Co. of New York
Consolidated Gas, Electric & Power Co. of Baltimore
Electric Bond and Share Co.
Lehigh Coal & Navigation Co.
Mohawk Hudson Power Corp.
National Power & Light
Niagara Hudson Power Corp.
Pennsylvania Water & Power Co.
Public Service Corp. of New Jersey
Safe Harbor Water Power Corp.
St. Regis Power Corp.
United Engineers & Constructors, Inc.
United Gas Improvement Corp.
United Light & Power Co.
United Railway and Electric Co. of Baltimore

Source: U.S. Federal Trade Commission.

and more than 175 operating companies, and speculation had become a force within it.

A key indicator of the process is the change in the share price of the stock of Insull's two key companies: Between January and August 1929, a share of stock of Insull's Commonwealth Edison more than doubled in price, from $202 to $450, while a share of stock of Insull's Middle West Utilities more than tripled in price, from $169 to $529.

Initially, Insull hung on during the Depression. But, in April 1932, a group of New York banks, very much in the pocket of the House of Morgan, refused to roll over a $10 million loan for Insull's holding companies. Overstretched financially, his empire folded—19 of his companies defaulted on $200 million in obligations. According to one source, the losses of investors holding stocks in Insull's companies totalled between $500 million and $2 billion.

Insull's companies were put into receivership. He fled the country, and was brought back to stand trial on charges of financial malfeasance and fraud. He was acquitted. In part, Insull became a scapegoat, to cover up for the much larger role of the Morgan interests, although Insull was active in the bloating of stock and other illicit activities.

As powerful as many interests were, the Morgan Bank was the overwhelming command and control center for the financier oligarchy in the power industry. The House of Morgan ran General Electric Co., which it formed after it drove Edison out of Edison General Electric Co. in 1892. In 1929, General Electric and its subsidiaries produced 13.6% of the total electricity produced in the United States. But by far, the largest concentration point for control of U.S. electricity generation was the United Corp., which Morgan formed in 1929, assisted by the Bonbright group, expressly for that purpose. The accompanying table lists the utility companies that, through takeover and merger, were made part of United. The U.S. Federal Trade Commission reported in 1933, "The combined electrical output of this supergroup [United Corp.] is about 27% of the entire nation. In fifteen Eastern, Southern, and Midwest States where the group operates, it distributes practically 50% of the total electric energy."

There was no doubt that United Corp. was the House of Morgan. Morgan Bank partners were on its board and its books were kept at 23 Wall Street, Morgan Bank headquarters.

Among United Corp., General Electric, and some other companies, Morgan controlled 35-40% of total electricity production in the United States. Using the utility holding companies, the Morgan forces had immense power, which they used to pillage the utility industry on a mighty scale, and to reap gigantic profits through the speculation that the holding companies afforded them. They were not going to surrender this.

The Fight for the PUHAC

On March 12, 1935, President Roosevelt introduced to Congress the Public Utility Holding Company Act (PUHCA), an act with two titles, and of which Title I had a bombshell feature: It stated that many utility holding companies had no useful economic function, but were largely for pyramiding (speculation). It stated that the utility companies should *voluntarily* get rid of those holding companies which had no useful function. But, should that not be carried through, within five years, on Jan. 1, 1940, the Securities and Exchange Commission (SEC) *would be empowered to compel the dissolution of every holding company which did not establish an economic reason for its existence*. Most holding companies would be dismantled. This was called the "death sentence clause."

The death sentence caught everyone's attention.

The PUHCA had other powerful provisions. Within Title I, it stipulated for the utility industry, that the SEC should: regulate securities issues and intercompany transactions, lay down the principle that a holding company should not benefit from financial dealings with its own subsidiaries,

President Franklin D. Roosevelt signs legislation creating the Tennessee Valley Authority, May 18, 1933.

and demand uniform systems of reporting and accounting.

Title II of PUHCA authorized the Federal Power Commission to integrate the utility operating companies into regional systems on the basis of technical efficiency, not of speculative manipulation.

Taken as a totality, what the PUHCA meant is that before a utility holding company could issue stock and other securities, it had to register them and be cleared by the SEC. It could no longer issue unlimited amounts of stocks, and the level it set dividends at, had to be reasonable, and not result in looting the capital base and operating cash flow of the company. It also could not use fees and other devices to loot its subsidiaries. Its books had to be understandable by outside parties, rather than a bewildering maze of transactions meant to mask internal looting.

Supplementing the PUHCA, Roosevelt pushed through Congress the Federal Power Act (FPA) of 1935. The FPA expanded the powers of the Federal Power Commission to "regulate electric utilities' wholesale rates and transactions." Thus, the Federal Power Commission—which, in 1977, became the Federal Energy Regulatory Commission (FERC), but continued to execute the same function—"establishes just and reasonable rates for the transmission and sale of wholesale electric power in interstate commerce. It also regulates permanent interconnections of electric utilities and promotes the adequacy of interstate electric power service."

Crushing Criminal Activity

Before we consider the oligarchy's attacks on these measures, we look at the way that a positive method to set prices was activated. This method is very much like the "parity price" in agriculture, and reflects the way that sound economic pricing has been done in the United States.

The Federal Power Act established the grounds for the Federal Power Commission to set wholesale prices for electricity "at reasonable rates." The power to set *retail prices* for electricity at reasonable rates, was always vested in the states. However, the states could never adequately carry out that function, because the raw power of the Morgan-led utility holding companies was too great. The tandem of the PUCHA and the FPA, by knocking out some of the power of the utility holding companies, and establishing Federal regulation over wholesale prices, shifted the balance of power to the states so that they could carry out their vested function.

Both the Federal government in determining the wholesale price, and the state governments in determining the retail price, use a broadly similar approach. According to regulatory authorities, they employ this standard formula: The utility company states a required level of revenues from the sale of electricity that it needs for the year to cover operating expenses, depreciation of plant and equipment, and a fair rate of return. If the regulatory body finds that the revenue request is justified, and approves it, the utility will divide the dollar revenues it anticipates it will take in, by the volume level of kilowatts of electricity it plans to sell, to determine what price per kilowatt hour of electricity it will charge its customers. So, total revenue should equal the utility's total cost of production (inclusive of the necessary provision for technological improvement) plus a fair rate of return (though not stated, often in the range of 3-6% per annum).

In a very similar manner, the parity price for agricultural products is determined.

In his four years as Governor of New York State (1928-32), Franklin Roosevelt had worked arduously to get state and international agreement to build dams with turbine generators on the St. Lawrence River, and then to transmit the electricity to New York State. He worked with several engineers and scientists on this. In his calculation for what the price of electricity should be, Roosevelt came up with a method which he called "actual cost of service," very similar to the method outlined above.

Bankers' Rage

Roosevelt had drawn a line in the sand: Either the Wall Street-run utility companies would stop their criminal looting of their underlying operating companies, their giant run-up of the utility company stock prices, their pyramiding of holding company upon holding company, etc., and accept the setting of fair electricity prices and the development of the physical capacity of the utility industry, or they would be dismantled.

Faced with this choice, the Morgan-led Wall Street forces snarled, "No," they would not give up their criminal looting. They would not accept Roosevelt's offer, because that entailed giving up their power, and adopting a perspective of industrial development that was alien to them.

Roosevelt knew the J.P. Morgan Bank well. In January 1933, before he took office as President, and while he was forming his cabinet, Roosevelt wrote to an acquaintance, "There will be no one in [the cabinet] who knows the way to 23 Wall Street. No one who is linked in any way with the power trust or with the international bankers." Roosevelt's contempt for Morgan was so complete, that he referred to them only by 23 Wall Street, their street address.

On March 12, 1935, Roosevelt introduced the Public Utility Holding Company Act, sponsored by Senator Wheeler and Representative Rayburn. The Wall Street financiers, led by Morgan Bank, fumed with rage. John W. Davis, the general counsel of Morgan Bank, stated before the American Bar Association that the PUHCA was the "gravest threat to the liberties of the American citizen that has emanated from the halls of Congress in my time." In September 1935, Davis was the lawyer for the Edison Electric Institute, the lobbying arm for the electric utility industry, when it joined with one of its members, the American States Public Service Co., in the first suit against the PUHCA.

S.R. Inch, president of the Morgan-controlled Electric Bond and Share, said that the bill "would be the nationalization of the industry."

Slander Campaign vs. FDR

A slander campaign concerning President Roosevelt's mental health was coordinated at the highest levels, and uttered publicly. In May 1935, at a conference of bankers, Thomas McCarter, president of the Edison Electric Institute, stated about Roosevelt's ardent advocacy of the PUHCA: "The President has an obsession on this subject. It is a condition of mind that even many of his closest associates in Washington do not understand." A few weeks later, before 1,200 utility executives at the Institute's annual meeting, he repeated this crack. Privately, this rumor was being circulated in Wall Street circles. Then, the July 8 issue of Henry Luce's *Time* magazine gave it wide circulation, writing that Washington correspondents were being hit with queries from their home newspaper asking whether the President was on the verge of a mental collapse. Said *Time,* "He had, according to the tales roaring through the country in whispers, grown mentally irresponsible. Hadn't you heard that during a press conference he had a fit of laughter, had to be hurriedly wheeled out of the room? Why, his intimates were taking the greatest care not to have him make a spectacle of himself. And when he heard the Supreme Court's NRA verdict, he was supposed to have succumbed to a violent fit of hysterics."

Wall Street and the power industry spent $1.5 million attempting to defeat the PUHCA, a significant sum in those days. They flooded congressmen with telegrams against the bill. It was discovered, however, that tens of thousands of those telegrams were forged. A Western Union manager from Warren, Pennsylvania testified before a Senate committee authorized to investigate the matter, that he had collaborated with a utility industry executive, in forging the names of 1,000 people from the city directory onto telegrams, which were sent to members of Congress opposing PUHCA.

The financier oligarchy left no stone unturned, turning this into one of the fiercest fights in American history.

On June 11, the Senate voted up the PUHCA by a vote of 56-32. But in the House, a rump group, calling itself "conservative Democrats," some of whom were in active contact with the utility holding companies, refused to support the bill. To get the legislation passed, the terms of the "death sentence" provision were altered: In its amended form, it required the SEC to abolish by Jan. 1, 1940, utilities systems having *more than three layers* of holding companies, permitting either one or two extra layers of holding companies, above the level permitted in the original bill, depending on how the bill was read. The death sentence alteration added an opening for Wall Street, but even in altered form, it eliminated the condition, which had been prevalent, by which 5 up to even 20 holding companies were piled on top of the utility structure, each demanding its own loot. All the other original provisions of the bill remained intact. The bill passed the House and was signed into law by President Roosevelt.

President Roosevelt also tackled the power question in two other exciting ways:

The TVA and the REA

On May 18, 1933, he signed into law the Act authorizing the Tennessee Valley authority (TVA). It covered the Tennessee River Valley, which spanned 41,000 square miles and parts of seven states. The area was economically terribly backward, and was overrun by the raging waters of the Tennessee River and its tributaries, which periodically destroyed millions of acres of farmland, as well as business and homes. The TVA provided integrated flood control, hydroelectric power, and irrigation. It provided scientific farming, brought in industry, eliminated malaria, conquered illiteracy, and many other achievements. One of its greatest accomplishments is that it electrified the area, which the utility companies had been unwilling to do. In the 1930s, before the TVA was built, the average person in the Tennessee Valley used only 60% as much electricity as the average person in the nation as a whole; but already by 1939, the average person in the Tennessee Valley used 1.25 times the amount of electricity as the average person in the nation.

In May 1935, while the fight against the utility holding companies was going on, the Rural Electrification Administration (REA) was created. The large utilities would not string transmission lines in most rural areas, because it was not profitable, and was indeed a money-losing proposition. The REA created cooperatives of farmers and rural people, who undertook with the REA to construct transmission lines for rural areas. At the end of 1934, only 10.9% of all U.S. farms had electricity, while in the state of Mississippi, less than 1%, and in Tennessee only 3% of the farms had electricity. As a result of the work of REA, by 1941, four out of ten American farms had electricity; by 1950, nine out of ten.

With the TVA and REA producing new electricity and transmitting electricity, respectively, the assault on the electric utility holding companies took on even deeper significance.

As a result of the PUHAC and the Federal Power Act of 1935, for the next 60 years, the United States had the overall conditions for a steady supply of abundant energy, whose price was falling by a modest, but important amount decade by decade. This played a vital role in providing economic development to America, at least until the "post-industrial" policies introduced since 1967 seriously forced contraction.

Now, the same Wall Street forces that ran the utility holding companies, and which opposed the PUHAC in the 1930s, are calling for the abolition of the PUHAC, as a keystone feature of deregulating America's power system. Those who do not have short memories, should realize that this would take America back to a period of speculation, rising energy prices, looting of the energy infrastructure, and destruction of the economy.

Natural Gas

The Next Energy Crisis

by Marsha Freeman

This past winter and spring, the United States suffered rising gasoline and home heating oil prices, often blamed on OPEC, but most likely the result of the manipulation of the market, for the greedy gain of the multinationals that control it.

Since the spring, consumers have seen their electricity bills rise, in some cases, astronomically. As documented above in this section, the lion's share of the increase has not been a result of some "law of supply and demand," but rather the reprehensible practices of unregulated companies, which stand to obtain a pirate's ransom from withholding supplies, and creating a crisis, to drive up the price.

But part of the rise in electricity rates, and the nation's energy budget overall, is due to the doubling of the price of natural gas over the past eight months. And for households that depend upon gas for heat in the winter, this year promises both continued price increases, and if there is a cold spell, spot shortages and prices that many people may not be able to afford.

Supply and Demand?

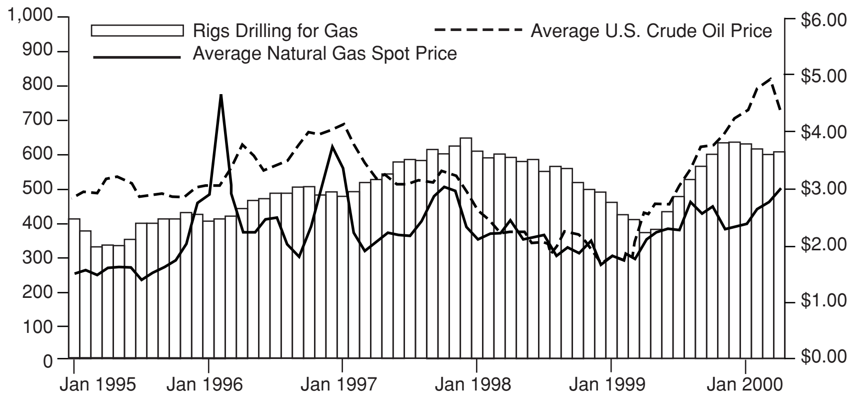
One might think that the steep rise in natural gas prices was due to the fact that, while demand is steady or growing, reserves have somehow suddenly fallen, and there isn't gas to drill. On the contrary, as **Figure 1** shows, the price of natural gas has little to do with how much is produced, but actually follows the price of petroleum. When oil prices fell in 1997 and 1998, so did natural gas prices. The decline in prices, according to the industry, led to a contraction in the exploration and drilling for new reserves, which has now led to a shortage, and hence, rising prices.

But, wait! More than half of the oil used in the United States is imported—its price is out of U.S. control—while almost 90% of the natural gas used here is domestically produced. There is no reason, therefore, why changes in one should determine the other, especially since these two fuels are often interchangeable. One would think that when oil prices went through the roof, smart natural gas producers would have offered stable prices, and picked up the extra business, not doubled their prices, and cut back on production.

In fact, as an Aug. 6 article in the *New York Times* explains, there is a fundamental shift taking place in the natural

FIGURE 1
Gas Drilling Activity and Crude Oil and Gas Prices

(Average Active Rigs) Average Price ($/MMBtu)



Source: American Gas Association.

gas industry, which many in the industry believe, has brought *permanently* higher prices.

At the present time, natural gas provides less than 15% of the fuel for the electric utility industry. But about 90% of the new capacity that is slated to come on line will be natural gas-fired. There is no reason that this increasing demand for gas from the electricity-generating sector should have caught the gas industry by surprise: This shift toward gas has been going on for a number of years. According to the American Gas Association, the forecast is that over the next 20 years, the quantity of gas needed for electricity generation will double (**Figure 2**).

Energy anaylsts Daniel Yergin and Thomas Robinson wrote in an op-ed commentary in the *Washington Post* on July 21, that the current deficit in gas production, which is 7% less than in 1997, will persist. They estimate that more than $500 billion will be required over the next decade, nearly double the investment level of the 1990s, to bring the required new production and transportation capacity on line. For that to materialize, Wall Street will have to be willing to move some investment resources in to this "old economy" vital industry, and out of quick-buck "new economy" which is where money has been going.

It is also clear that the natural gas industry has known for more than a decade that increased supplies would be needed for home heating. **Figure 3** plots the rise in the percent of single-family homes heated with natural gas. Between 1986 and 1998, that share has risen from 47% to 70%. The decline in natural gas production for two years was solely a function of an artificial price decline, pegged to oil, rather than any projections for declining demand.

From the 1930s up until 1978, the price of natural gas at the wellhead (the production price), was controlled by the Federal government. In the rush to deregulate, during the Carter Administration, and in response to the winter 1976-77 natural gas shortages, the Natural Gas Policy Act phased in the decontrol of natural gas prices at the wellhead.

In 1992, the same year it "opened up" the electricity transmission system to unregulated suppliers, the Federal Energy Regulatory Commission (FERC) ordered natural gas pipelines to "unbundle" their services, opening the market to new, unregulated companies.

As a growing number of customers were given the option of choosing their gas supplier, the mandate to provide consumers with an uninterrupted, reliable, affordable supply of natural gas was disappearing.

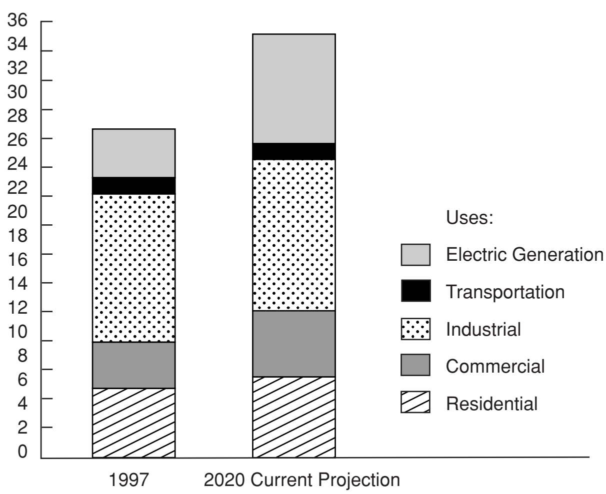
Affordable Natural Gas, a Thing of the Past

Already, the doubling of natural gas prices is being felt in the pocketbook of the consumer, both in gas and electricity prices.

- In July of this year, Reliant Energy's Houston Light & Power asked the Texas Public Utility Commission for a 14% electricity rate increase, in order to pass on to its customers,

FIGURE 2
Natural Gas Consumption and Forecast

(Quadrillion Btu)

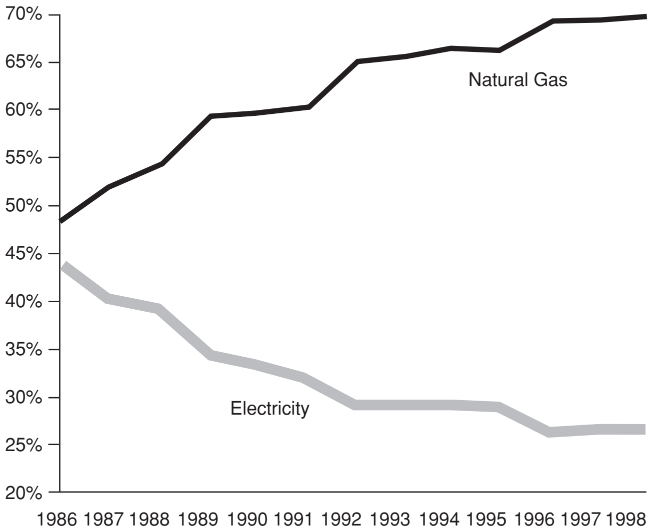


Source: American Gas Association.

FIGURE 3

Natural Gas Heats an Increasing Number of U.S. Single-Family Homes

(Percent of Total)



Source: U.S. Bureau of the Census.

the higher cost of natural gas fuel. Reliant made this an "emergency request," since its regularly scheduled request for rate adjustments is not until October. The municipal utility that serves the city of Austin had already passed on its higher fuel costs to customers.

• On July 21, the South Carolina Public Service Commission approved a 16.8% increase in the natural gas prices that could be charged by South Carolina Electric & Gas.

• Four days later, New Jersey's Elizabethtown Gas Company requested a rate hike that could raise natural gas bills for customers 18%. The state had deregulated the intrastate price of natural gas at the beginning of this year, and as one distribution company stated, now "natural gas is a publicly traded commodity, just like crude oil or coffee."

• At the end of July, the Duluth Public Works and Utilities Department began urging residents in this northern state of Minnesota to start planning ahead for higher heating bills this winter. The municipal department warned that residents could see jumps of $200 on their bills over this winter.

• Alabama Gas Corp. has raised residential gas rates already this year, and expects that the higher prices could add up to a 15% hike before the year is over.

• The last day of July, the Washington Utilities and Transportation Commission in Olympia approved an increase for natural gas service, which could see some households paying 27.5% more this year for natural gas.

• On Aug. 1, the local press in Oklahoma reported that typical electricity customers in the state (which, like Texas, is a natural gas-producer), were facing increases of up to $8.17 in their August bills as a result of skyrocketting gas prices.

• Columbia Gas of Kentucky has announced that bills will jump 20% for consumers, starting on Sept. 1. And the Public Service Commission has warned Kentuckians that their winter heating bills will rise as much as 50%, as compared to last winter.

• And while the Republican Party was holding its bacchanalia in Philadelphia the first week in August, some residents of that city were more interested in the fact that the city-owned Philadelphia Gas Works was asking state regulators for a one-time rate increase to generate the $55 million it needed, due to the increased price of natural gas. This is not a request from a price-gouging "independent" supplier, but a government utility that must be able to purchase natural gas for its customers.

The entire situation had gotten so out of control by the first week in August, that Indiana Gov. Frank O'Bannon announced that he was considering invoking a 1981 law that would allow him to suspend the state's 5% sales tax on natural gas, in the event of an energy crisis. The Governor had earlier invoked that law to suspend the gasoline tax in order to protect the interests of the citizens. Aides to O'Bannon said they are concerned that industry projections indicate that winter heating costs "could jump through the roof."

The natural gas shortages during the winter of 1976-77, which were so severe that businesses closed, were attributed to artificially low prices under the control of the Federal government. There is no doubt that wellhead prices could have been raised in a controlled manner, or other incentives could have been found to encourage investments in new natural gas resources. Public Utility Commissions did, after all, find ways for more than 60 years of making investment in the regulated electric utility sector attractive enough for private capital to be made available to ensure adequate capacity.

Instead, tne ideological rush to deregulation, to make natural gas—upon which people depend for heat during the winter, and increasingly, for electricity all year around—just another "commodity," has led to the same kind of price hikes and potential shortages that deregulating the electric utility industry has already visited upon the state of California.

Peru: God Offers His Challenge to Engineers

by Sara Madueño Paulet de Vásquez

Now that the Peruvian elections are concluded, and President Alberto Fujimori has been elected for five more years, it is time to address the principal challenge facing Peru—and the world—in light of the ongoing international economic crisis. The following is the edited translation of a presentation by Peruvian architect and analyst Sara Madueño de Vásquez, to the annual conference of the Schiller Institute in Lima, on Dec. 28, 1999.

There is no point at this time in getting into how bad the national and world economy is, and how the ultra-liberal, free-trade measures that have been imposed on our nations, especially in recent years, have brought us to the edge of the abyss. No one can doubt any longer, that we are heading toward the disintegration of the international financial system. We can see their Dantesque sequel in our own national economies. These facts have led us to a crossroads: Either we give up the fight and let ourselves be dragged impotently into total crisis, or we turn it into an historical moment for moving forward and, as Lyndon LaRouche says, "return to the place where we took the wrong path, and take the correct one, the road of the new Bretton Woods." Each nation, from its specific vantage point, each world citizen, now faces the same choice.

Here in Peru, our political class suffers from an alarming programmatic understanding. Their gaze is fixed, and they can't see beyond their noses. Their so-called programmatic platforms, regarding how to deal with economic matters, all appear to be prescriptions made up of the many little pills that the International Monetary Fund (IMF) distributes so freely: globalization, monetarism, free trade, all the clichés now accepted as "universal truths."

The virtual reality of liberalism has transformed our country's economy into shops whose display windows carry imported products that almost no one can afford to buy. It is the *light* economy, which subjects the population to enforced anorexia. We have an alarming 40% of the population living in conditions of extreme poverty. The real economy, the physical economy, the industrialization of the country, is not on the political agenda. Our incipient manufacturing industry operates at less than 50% of capacity. Free market *dumping* is drowning our national industry. Yes, our industry must be competitive, but that can be accomplished by regulating it, not killing it.

There is certainly a method for achieving development, and this has been successfully applied in many nations, all of them protagonists of economic miracles. This is the case with the United States itself, Germany, Japan, and now China. It is useful to re-create the development method already successfully tried by other nations, which is the strategy of *Development Corridors*. This is a method that never fails. It is a daring and optimistic perspective on development. With this method in mind, let us look at the "forest" from above and, with optimism, put together the picture of a prosperous future. Then we can undertake to make it a reality.

The Hamiltonian Method

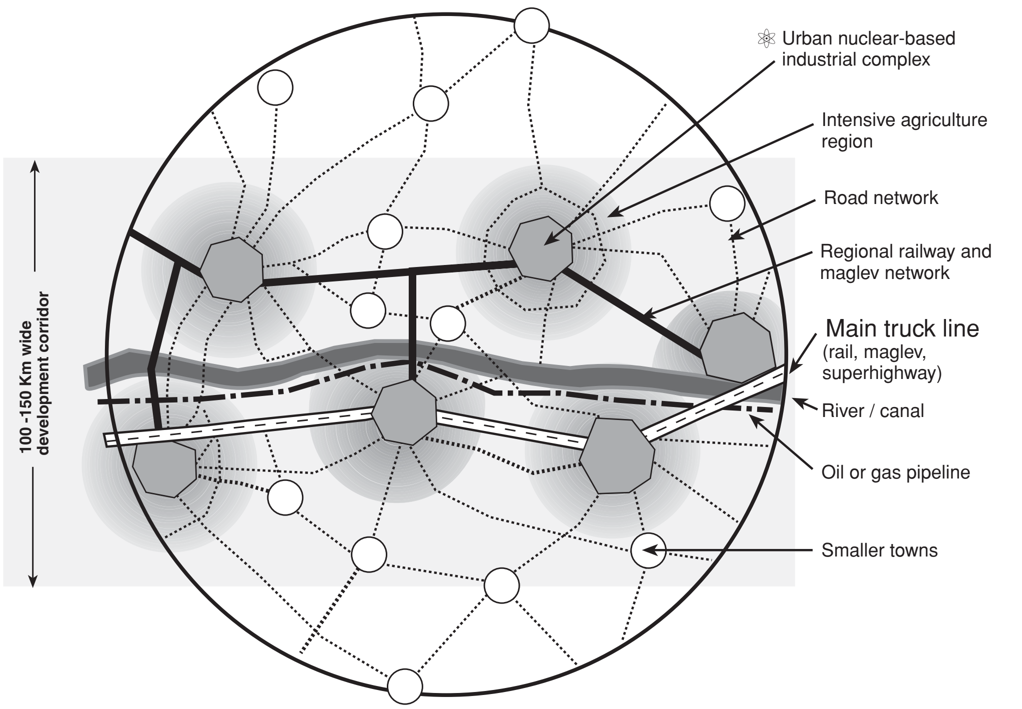
The pioneer, and thus far most successful example, is that of the United States. A manual of this "method for development" is the famous report by Alexander Hamilton, father of the *American System of Political Economy* who, in 1791, as U.S. Treasury Secretary, wrote his "Report on Manufactures." There, Hamilton established the principles of economic policy which made possible the progress and industrialization of that nation. Less than a century later, Abraham Lincoln took up that Hamiltonian method. Then, Franklin D. Roosevelt drew on that same *American System* method in planning for post-war reconstruction. We also have the extraordinary German economic miracle, inspired by the *American System* model. One current example, occurring even as the West goes through its Hamlet-like "To be or not to be" crisis, is in China, with its extraordinary Eurasian Land-Bridge project.

What is the singularity of the economic development strategy used by these nations and which has guaranteed such success? That singularity is the concept which guided the construction of economic infrastructure (transport, communications, energy, etc.) necessary for the development of cities, industry, agro-industry, and so forth. This concept is then joined to an appropriate credit policy through a National Development Bank for Infrastructure and Industry, both public and private, with credit directed only to investment in infrastructure projects and in productive industrial projects—a bank on the model of Hamilton's National Bank.

But this strategy would not have succeeded anywhere, had it not been accompanied by a policy of universal education, which, based on a Classical curriculum, encourages the development of creativity and technological assimilation. An educational policy of this sort would produce a real enthusiasm among youth for the development of private initiative, in both science and business. In this way, we would forge the leaders of a machine-tool sector of the Peruvian economy, key to sustained economic development because it requires constant technological innovation. The German educational reform at the beginning of the 19th century, under the direction of Wilhelm von Humboldt, is exemplary. Indeed, therein lay the key to the success of the post-war German miracle.

All the economic miracles stemmed from viewing economic infrastructure from an integral standpoint, as a collection of industrial projects associated with modern infrastructural axes, or "development corridors," which cut through large tracts of territory. These corridors were generating productivity throughout their length and breadth, and spreading progress through modern cities being built up all along these corridors. This was the principle employed in the construction of the great canals in the United States, and in the decision to criss-cross its territory with highways, railroads, and energy grids. The physical geography was modified to build an economic geography coherent with the requirements of an agreed-upon national development project. This is also the principle behind the Eurasian Land-Bridge.

FIGURE 1
Graphic Representation of a 'Development Corridor'



What Is a Development Corridor?

The "development corridors" are thus part of the motor infrastructure of the economic miracles (see **Figure 1**). LaRouche put it like this: "The proper design for the development of any very large land-area must be based on certain geographical principles. In modern history of the past two centuries, the center of these geographic principles is transportation routes, chiefly for water-borne commerce and trunk railways, still the cheapest and most efficient modes for movement of produced goods. . . . Do not think of this as merely passageways for transportation; think of them as development corridors, just as the U.S.A.'s Lincoln reform of 1861-1876 defined the relationship between transcontinental railways, and economic development of the land-areas through which the railways passed. Think of these as strategic development routes . . . not as merely conveyor-belts of people, goods, water and power, but as like production-lines: a zone of efficient, high-density production of agricultural, mining, and manufactured goods, running the length of the trunk-line, and with a width of up to approximately a hundred kilometers. . . . Within this zone, there are nodes, such as cities and towns, areas of intensive agricultural and industrial production."

The city that extends from a radiating nucleus, is conceptualized in a series of concentric circles, each one of which defines a specific use of urban space. In the center, the cultural and administrative sector is contiguous with urban housing. An industrial complex is located in the second concentric circle, and an agro-industrial complex in a third circle. The city is connected to other cities through regional railroads. The succession of cities thus conceived, which are themselves developed along an infrastructural route, make up the development corridor.

The Eurasian Land-Bridge, under China's initiative and leadership, involves the direct participation of nearly 20 other Eurasian nations. Once it is built as planned, it will transform not only the economic geography of Eurasia, but it will have a domino effect throughout the world. It is worth taking a closer look at it, as an example, and because it will directly shape the near future, if we emerge successfully from the present crisis. With this integral project of infrastructural works, of such an unprecedented magnitude, China is showing the world that there is an alternative to the current crisis.

The Eurasian Land-Bridge is based on four infrastructure corridors, or development corridors, which include: railway lines, some of them high-velocity; energy centers; oil and gas pipelines; fiber-optic cables; 200 new cities of 1 million inhabitants each; industries, ports, airports; hydroelectric and nuclear plants, etc. These four development corridors will integrate China as a nation, linking it with the entire Asian continent, and the Asian continent with Europe. That is, one could travel in one day from Lianyungang (a major Chinese port on the Pacific coast) to Brussels, and back again, on a high-speed maglev (magnetic levitation) train.

But the Land-Bridge is not just about transport. This unique project, premised on the development corridor strategy, includes more than 10,000 projects of every sort. One of these, already under construction since 1994, is the largest hydroelectric project in the world, known as the Three Gorges Dam. This project will have an energy generating capacity of nearly 18,000 megawatts. For comparison's sake, the largest capacity Peruvian hydroelectric plant, at Mantaro, generates only 800 MW. Building the Three Gorges Dam requires taming the vast Yangtze River; a 700 kilometer stretch must be made navigable for ships with maximum draft. At the same time, the diversion of the waters of the Yangtze into the Yellow River, would open up northern China to agriculture, in an area equivalent to twice the size of Germany.

The 'Steel Belt' that Embraces the World

Seeing the development potential of the Indian and Pacific Basins, naturally suggests the future need to extend the Eurasian corridor into a "steel belt," a development corridor that could circumscribe the world, joining Europe and Asia with the Americas (see **Figure 2**), and in the process, incorporating Africa and Australia as well. In these basins are concentrated the demographic center of humanity. Hence the necessity of extending economic and development cooperation to the entirety of this region, of which Peru is a part (**Figure 3**).

The project to integrate the world through such a transmission belt of progress is not new. American historian Anton Chaitkin has documented that the friend and colleague of Abraham Lincoln, economist Henry Carey (1793-1889), and his associates, had hoped to replicate in the world what had already been done in the United States and Europe. Their plans were very explicit with regard to the integration by railroad of Germany, Russia, China, Mexico, Colombia, and Peru. The project involves "crossing the globe with steel tracks [because] only great works lead to the advancement of civilization and the development of the natural wealth of the people," they maintained. Peruvian historian Luis Ernesto Vásquez has documented that it was the American nationalists' plan to reproduce the American model of development in Peru, which was the real *casus belli* behind Britain's setting Chile at war with Peru in the 1879-81 War of the Pacific. To contain the "American Design" was Britain's objective, and to accomplish that, among other actions taken, it orchestrated this war. During this so-called War of the Pacific, says Vásquez, Peru served as a proxy battleground of a war between Britain and the United States.

We can see in Figure 2 the route of this "steel belt" that would encompass the world. This is nothing more than an extension of the Eurasian Land-Bridge, whose northern point, after travelling across Eurasia, arrives in Beijing. From there, the project would continue north, to link up with the Trans-Siberian Railroad. This branch, extended east, would cross the Bering Strait, cross Canada, hooking up with the railroad network of the United States, to cross North America, and continue south, traversing all of South America. This "steel belt" would cross Peru from top to bottom.

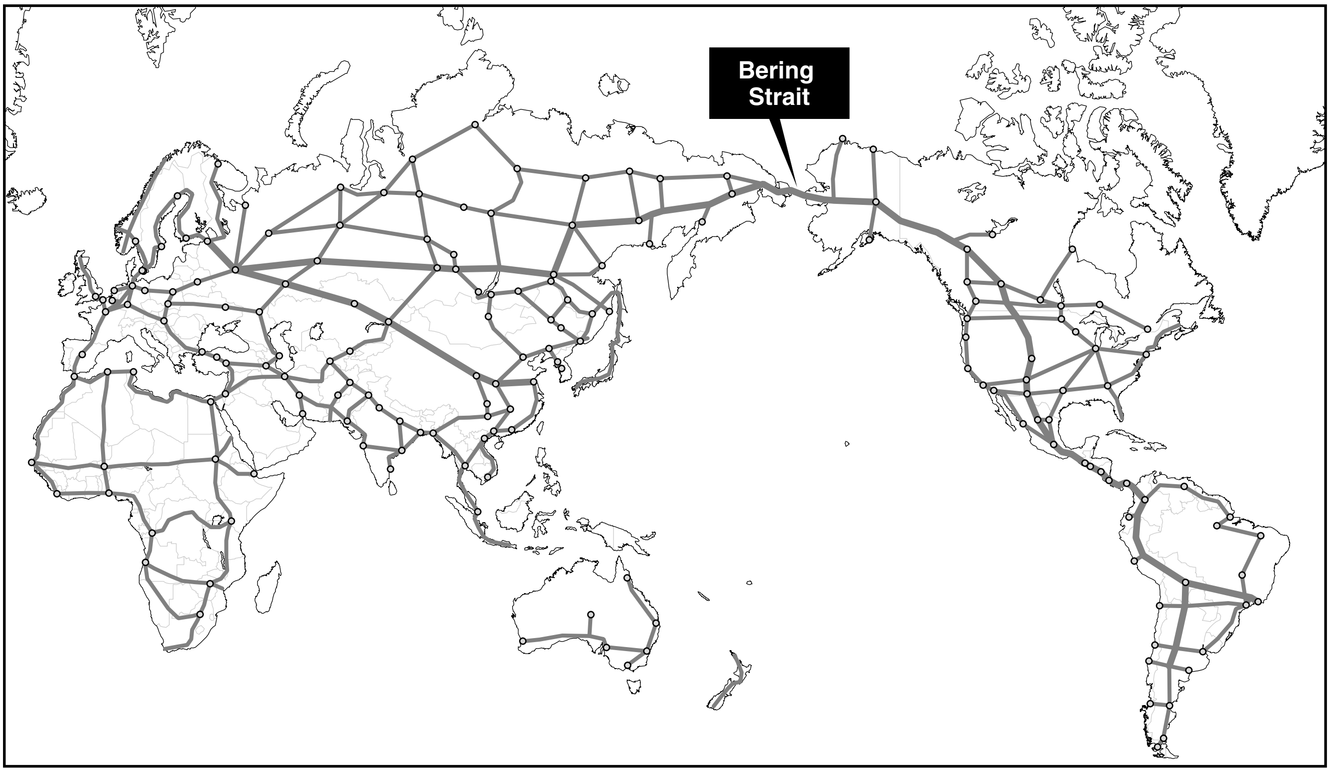
Let us stop a moment in America; we will have to redefine the economic geography of the continent, to optimize its potential. This means infrastructure works. We would need to build a high density of projects for each geographic area. If we are thinking in terms of making America an economic unity, the first step is to integrate it infrastructurally.

The route of this railway belt would penetrate the south of the continent by crossing Peru from north to south, through the rim of the jungle to the east of the Andes Mountain range. Complementing this railroad line would be the already-existing Pan-American Highway, today just a roadway parallel to the Pacific Coast.

Another important means of continental integration is the

FIGURE 2

Main Lines of a Worldwide Rail Network, as Sketched by H.A. Cooper



maritime route that takes us into the very depths of the south of the continent; from north to south by east (see **Figure 4**). The idea is to integrate for navigation the basins of the Great Lakes and the Missouri and Mississippi rivers in the United States, with the Orinoco, Amazon, and La Plata river basins in South America, passing along the Mexican and Central American coasts, through the Gulf of Mexico and the Caribbean.

The longitudinal railways and high-speed highways will unite the transcontinental routes that will join the Atlantic to the Pacific in the south. These routes will not only serve as alternatives to the Panama Canal, but as development corridors as well (see **Figure 5**). These corridors would extend out from the most industrially and technologically developed zones, and bring that development to the interior of the continent.

In this sense, the most economically dense area of Ibero-America is in southern Brazil, Uruguay, and the northern part of Argentina. And thus, the railway and water-borne infrastructure become the arms that extend from this productive center into the very heart of the continent.

We haven't the space here to go into the particulars of each of the vast regional and national projects that need to be built: dams, railroads, highways, energy plants, new cities,

FIGURE 3

The Pacific Basin and the Economy of Ibero-America

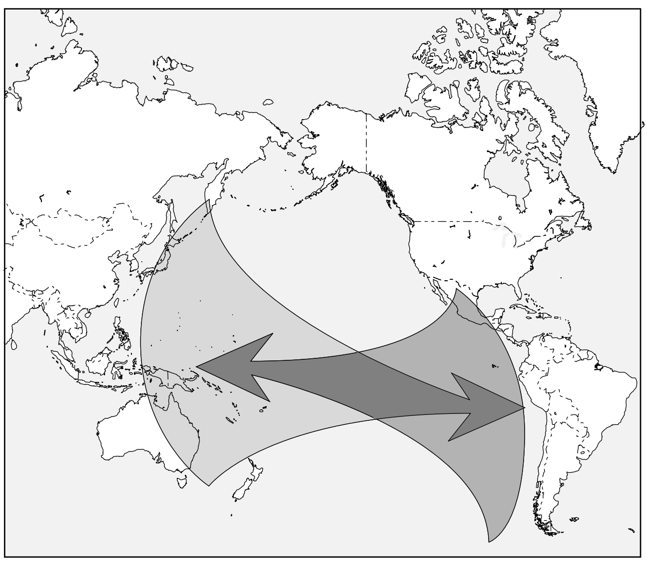
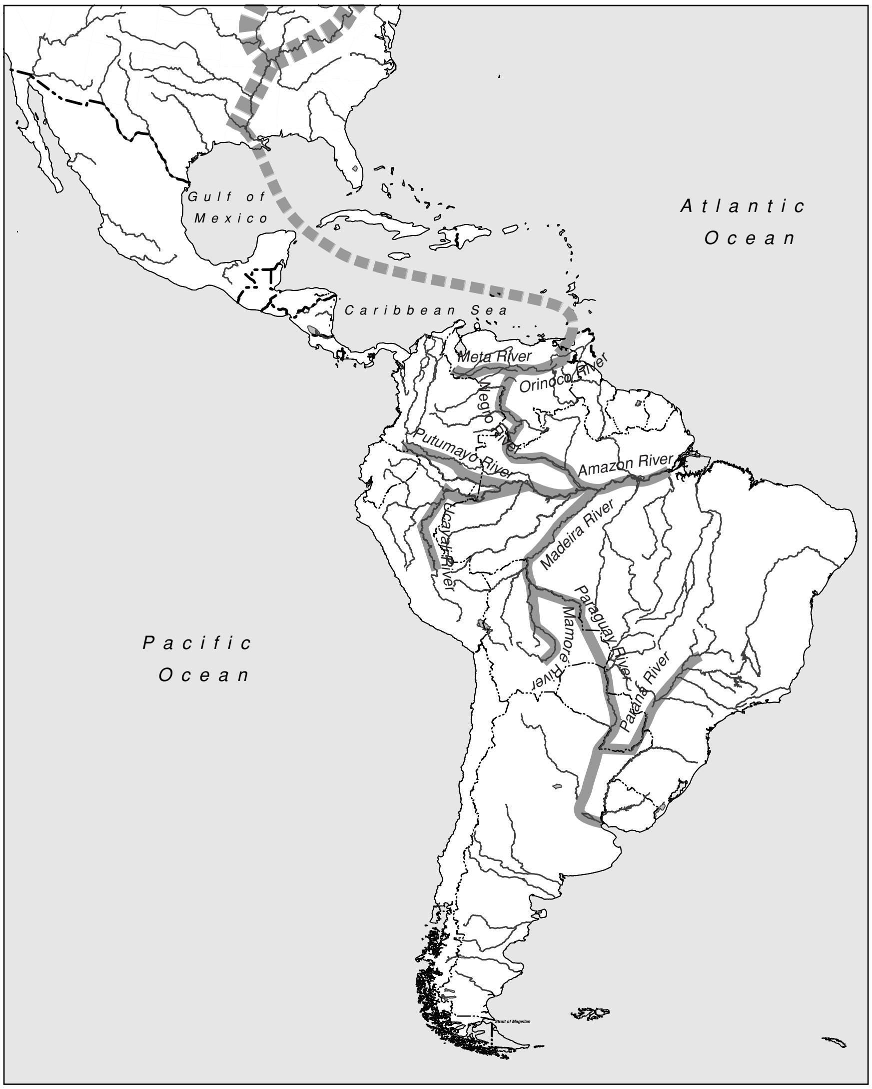


FIGURE 4

Integration of the Orinoco, Amazon, and La Plata River Basins



industrial ports, agro-industrial and mineral-industrial complexes, and so forth. There is an immense array of infrastructural and industrial projects of every kind, that must be developed alongside each of the development corridors. The definition of specific projects will be in the hands of specialists, with the criteria that they must reflect economic complementarity.

In order to forge economic unity in America, our community of sovereign nations should agree to and establish a hemispheric policy for development, as Lyndon LaRouche has recommended. It is within the framework of this policy that the regional and national projects to be constructed are to be defined. Each nation has its own specific projects to develop. In one hypothetical scenario, America could achieve a high degree of self-sufficiency in all the major branches of production.

An Engineer's Eye View

Let us take a closer look at Peru now. Peru is part of this steel belt that will encircle the globe, and looks out on the Pacific Basin. On an orographic relief map of Peru, we can see how the development of any great expanse of land must base itself on certain geographic principles, and how the definition and placement of these development corridors is essentially determined by physical geography. As we can see, Peruvian geography is very rough. The presence of the Andean Mountain range that crosses Peru from north to south, defines it as a nation of contrasts. Its hydrography, its geology, its orography, are all unique, abundant, apparently inhospitable. As we can see, we live in a geographically difficult country, but also one with extraordinary resources.

In itself, Peru is a country which offers a genuine challenge to human creativity. It is a challenge to innovative technology. Our country was made this way by God, to pose a challenge to our ingenuity; it is a country for engineers. Looking at it from this viewpoint, we should consider ourselves a chosen people. The Creator used our geography as a language, to tell us: I give you this country specially formed thus, so that you can have the opportunity to re-create the Creation, carrying out the engineering feats of which the creative human mind is uniquely capable. And so, after putting aside all our laments and expressions of impotence in the face of crisis, we can give free rein to our creativity, and launch ourselves into this great task before us.

We can predetermine how we are going to transform the economic geography of Peru, and that of the south of the continent, crossing the imposing Peruvian Andes by means of an integrated transport system: highway, water, and rail, a system that, at the same time, defines the axes of the transcontinental development corridors to follow.

The development corridor routes will, in turn, define for us the form in which we will occupy our own territory in the future. These routes are naturally defined by geography, as has been proposed since Humboldt's time.

It is easy to see that we could transversely cross Peruvian

FIGURE 5
South America: Great Rail Projects

FIGURE 6
Peru: Integrated Transportation Infrastructure

territory with three transcontinental development corridors: to the north, center, and south. These, as *transoceanic* routes of highway and railway transport, are already on the agenda of the respective governments involved, although in no case are they part of a bold perspective of development corridors (see **Figure 6**).

The northernmost development corridor would follow the Paita, Saramirisa, Iquitos, Manaos (Brazil) transoceanic corridor. It would involve first integrating, through a railroad line and high-speed highways of at least 200 km in length, the Pacific port city of Paiti, with the future industrial port on the rim of the jungle called Saramirisa. This path crosses the Andes at their lowest level in Peru, the Porcuya Pass (2,400 meters above sea level). At this point, the railroad and highway routes would intersect the Marañón and Amazon river basins headed out to the Atlantic. This would doubtless be one of Peru's largest development corridors of the 21st century.

Both in the case of Paiti port and with Saramirisa, they must be conceived integrally as industrial ports, not as free ports. Free ports only encourage contraband, gambling, and drug trafficking. In the best of cases, they serve as temporary seats of pseudo-industrial assembly activities. Rather, we need to conceive of our ports as the basis for consolidating an industrial sector, which would need large-scale port facilities, energy, and so forth. Our population gains access to dignified jobs as a result.

There is no economic justification why a transcontinental route has not been constructed during our entire existence as a republic. The construction of a highway route between Paita and Saramirisa, the first step in beginning to build our development corridor, could be done today at a cost of $200 million. Peruvian phosphates exported to Brazil alone would represent $600 million a year in sales, meaning that investment in the highway would be recovered in less than a year.

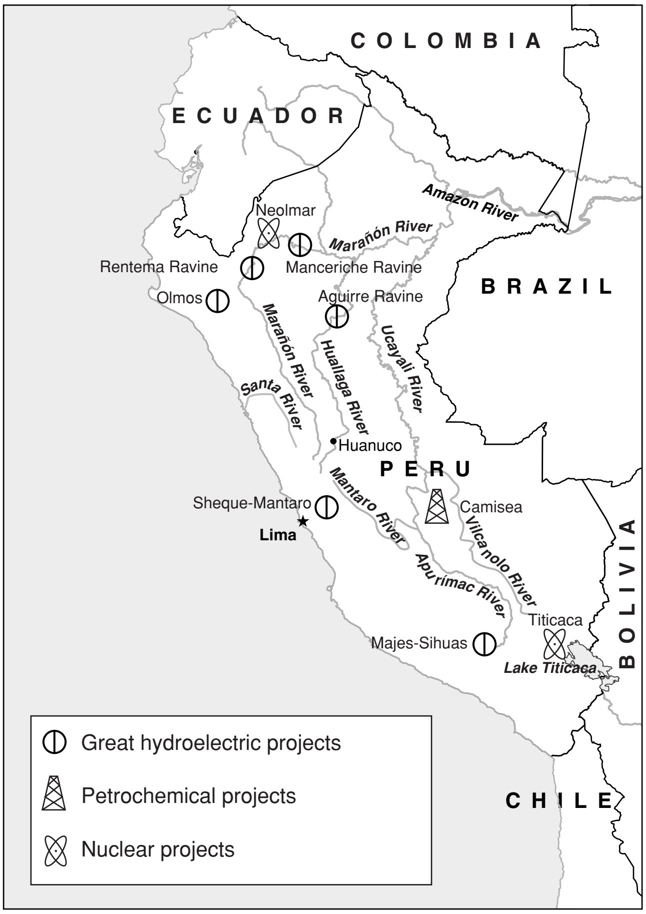
Hydroelectricity in the Marañón

We are not talking about simple transport routes here, but about strategic development routes. Given that each one of these development corridors involves a great density of projects, we need to endow these corridors with sources of high-density energy as well. In fact, the development of energy sources is the motor of these development corridors. Where to place these large energy projects is determined by the economic vocation of the various geographic areas, and the way in which we occupy our territory. Using a hydrographic map (**Figure 7**), we can concentrate on analyzing Peruvian hydrography, particularly in the north. Here, nature has been generous with Peru. Most striking in our rough land is the existence of tremendous water resources. By definition, Peru is a hydro-energy nation.

The Amazon is not only the most abundant river in the world, but it is the longest and the most navigable for its entire length. This great river is shared between Peru and Brazil. The Amazon basin which gave birth to Peru, has two great river branches in Peru. The Huallaga River flows into the Marañón. The Marañón, Huallaga, and Ucayali rivers, in their meanderings along the eastern Andes, pass through several ravines (called *Pongos* in Peru), which immediately suggest the natural damming of the waters and the spontaneous generation of energy. This observation leaps into view: Since the 19th century, there have been projects that propose using the electrical energy generated by this water and transferring it to the western part of the Andes Mountain range, so as to irrigate the arid Pacific coast of Peru, and convert it into a rich breadbasket. Part of this is the great Olmos project in northern Peru, which has been perpetually under construction.

In 1970, Japan's Agency of International Technical Cooperation, in agreement with the Peruvian government, sent a team of technicians to explore the hydroelectric potential of the Pongo de Manseriche on the Marañón River at the point where it joins the Santiago River. The result was the "Report on the Study of the Pongo de Manseriche Project," which recommended the construction of a dam 85 meters high and 800 meters long. This dam would regulate a maximum flow of 6,000 cubic meters per second, feeding a hydroelectric

FIGURE 7
Peru: Great Energy Projects



plant with a 2,500 MW capacity while, at the same time, allowing the passage of ships with 10-foot draft year-round, from the Pongo de Manseriche to Nazaret. This project was elaborated in detail 15 years ago, by Peruvian engineer Santiago Antuñez de Mayolo.

The immediate result of this project would be making more or less 1 million hectares available to agriculture, between the Nazaret and Santiago rivers. Suffice it to say that opening up the jungle rim to development is the only way to combat the drug trade. Coca plants would be replaced by agro-industrial plants.

Months after the report was issued, the Peruvian government requested a second technical opinion, and for that called on the Russian government, so that Russian and Peruvian technicians jointly explored the hydroelectric potential of the Huallaga and Marañón rivers. This team issued a report, entitled "Evaluation of the Hydroelectric Potential of the Marañón River Basin." The report poses the possibility of building and installing a series of dams along the length of the Marañón River—from Lauricocha to the Pongo de Manseriche—and 20 hydroelectric plants which would have a combined capacity of generating 12,000 MW; that is, the equivalent of the Itaipú Dam. Sixty-five percent of that potential would be attained through the hydroelectric plants installed on the Lower Marañón, that is, at the Pongo de Rentama (1,500 MW), Pongo de Escurrebraga (Aguirre) (1,800 MW), and the Pongo de Manseriche (4,500 MW) (see **Tables 1** and **2**).

For comparison, the total current potential of installed electricity service in Peru is 5,000 MW. It is obvious that with this very small installed electrical capacity, there is very little industrial development to which we can aspire. Further, in relative terms, industrial energy demand has decreased because of the severe recession. If Peru is to embark on lasting industrial development, the energy perspective we have outlined is critical (see **Tables 3** and **4**).

To this energy picture, we must add the hydroelectrical potential of the center and south of the country. We also have enormous gas reserves. The great Camisea project in Cuzco Department must be pushed through, with its vast potential vis-à-vis the petrochemical industry, given the quality of gas that the reserves both in Camisea and surrounding zones contain. We can also count on nuclear electric potential. There is the famous Neolmar project, at a point near Saramirisa. We have another nuclear energy project in the south, on Lake Titicaca.

Central and Southern Development Corridors

The transoceanic development corridor in the center of the country corresponds, in its first section, to the central highway and railroad route of Peru, which goes from Lima to the Mantaro Valley, Lima's supplier. But these transport routes have been overutilized. The main highway needs to be modernized, as does the railroad line, which needs to be extended to Pucalpa and from there, over to Brazil, going through the border point of Iñaparí. The Brazilians already have a plan to join Iñaparí to São Paulo, and there is on the drawing boards a plan to link Iñaparí with Salvador also on the Atlantic. This central corridor will connect Lima to the Pacific, and to São Paulo and Salvador on the Atlantic.

The first route is also an optimal route for the placement of a gas pipeline that would carry Camisea's gas to the Atlantic coast. The gas pipeline would also extend from Camisea to the Pacific coast, running parallel to the central railroad line.

There is another complementary route, of highways, railways, and energy lines, which also have to do with the development of the Camisea project as a petrochemical emporium that would transform the economic geography of the entire Department of Cuzaro, and surrounding areas. That would be the route leaving from Lima toward what should become a petrochemical terminal port on the Pacific to the south of Lima, the port of Cañete. From Cañete, the route would continue to Huancayo, crossing Camisea to Madre de Dios. In Madre de Dios, the highway would connect to the great port, which takes us by the Madre de Dios River to the Madeira River in Brazil. It would then cross Brazil diagonally to the

TABLE 1
Peru: Projected Hydroelectric Plants, by Integrated System (1995)
(Megawatts)

Plant	Status	Capacity
Total installed capacity		8,214
NORTHERN INTEGRATED SYSTEM		6,730
Mayush	bidding under way	150
Yuncan	definite	126
Olmos 1.1	definite	200
Olmos 1.2	definite	100
Olmos 2.1	definite	216
Olmos 2.2	definite	108
Gallito Ciego	definite	26
Poechos	definite	8
Carumy	definite	9
Sheque	definite	600
Platanal	feasible	140
Jicamarca	feasible	104
Culqui	feasible	20
Chaglla	feasible	440
Pampa Blanca	feasible	66
Quitaracsa	pre-feasibility	173
Cheves izquierdo/Huaura	pre-feasibility	150
El Chorro	pre-feasibility	196
Cumba	preliminary	825
Sumabeni	preliminary	1,074
Puerto Prado	preliminary	620
Paquitzapango	preliminary	1,378
SOUTHERN INTEGRATED SYSTEM		1,485
San Gaban II	definite	105
Charcani VII	feasible	18
San Gaban I	feasible	80
Quishuarani	feasible	81
Molloco 1.1	feasible	300
Molloco II	feasible	110
Lluta I	feasible	140
Lluta II.1	feasible	70
Lluclla	feasible	380
Vilavilani 3	feasible	38
Aricota 3	feasible	13
Moquegua 1	pre-feasibility	24
Moquegua 3	pre-feasibility	24
Coralaque	preliminary	131

Sources: Ministry of Energy and Mines, Electricity Reference Plan *Peruvian Times;* Mining Letter.

TABLE 2
Peru: Great Hydrolectric Projects Outside Northern Integrated System
(megawatts)

Project	Projected Installed Capacity
Manseriche Ravine	4,500
Rentema Ravine	1,500
Aguirre Ravine	1,800
Total	7,800

Source: Various studies by experts, as reported in text.

TABLE 3
Peru: Electrical Installed Capacity, by Source (1980–97)
(Megawatt/hours)

Year	Total	Hydroelectric	Thermal	Wind
1980	3,140.2	1,867.6	1,272.6	
1990	4,143.4	2,399.9	1,743.5	
1997	5,178.4	2,499.2	2,678.9	0.3

Source: Ministry of Mines and Energy.

north, connecting up with the Amazon and ending at the Atlantic port of Belén.

Along the Madre de Dios River, the existing city of Puerto Maldonado could be extended toward the border area with Bolivia, and then develop as a great bi-national city, sheltering hundreds of thousands of workers who would come to make the petrochemical development of the area a reality. There is also the option of building a great tri-national city (Peru-Brazil-Bolivia) in Iñaparí.

Farther to the south, we would have the development corridor that follows the route of the Liberators, with small variations. This route—conceptualized during the independence era—is another natural transoceanic land route. This corridor would begin at what should be industrial—not free—ports, at Ilo and Mataraní in Peru's south, and would link up by highway and railway to Peru, Bolivia, Paraguay, Argentina, and Brazil. That is, leaving Ilo, heading toward the Pacific Ocean, we would reach Buenos Aires or São Paulo on the Atlantic.

The highway project that would make up part of the southern development corridor is already under construction. The portion from the Port of Ilo to Desaguadero and to La Paz, a 460 km stretch, has just been finished and will be officially inaugurated shortly. Peru and Bolivia have already signed agreements to promote a railroad line between Ilo and La Paz, in addition to a pipeline between Ilo and Cochabamba, for Bolivian gas exports to Pacific Ocean ports.

In the south, the project is to also link up with the Brazilian transoceanic route at Iñaparí. In fact, here is where the project is at its most advanced stage. It was already made official by the Peruvian government, and involves some 1,200 kilometers of highway through Iñaparí, Madre de Dios, Juliaca, Puno, Moquegua, and Ilo.

The central and southern railway and highway routes are already partially on these governments' agendas. The concept that needs to be introduced to these projects is that of develop-

TABLE 4
Peru: Main Electricity Generating Plants

Hydroelectric plants	Installed capacity (MW)
Antunez de Mayolo (Mantaro)	798.0
Huinco	362.4
Restitución	210.4
Cañón del Pato	153.9
Charcani V	136.8
Mantucana	120.0
Machupichu	107.5
Carhuaquero	75.1
Callahuanca	71.7
Moyopampa	63.0
Yuapi	108.0
Malpaso	54.4
Pacchahaca	12.0
La Oroya	9.0
Cuajone	9.0
Viru	7.7
Thermal plants	**Installed capacity (MW)**
Santa Rosa	281.3
Ventanilla	200.0
Chimbote	65.1
Piura	54.3
Malacas	54.0
Chilina	53.4
Ilo	182.3
San Nicolás	69.8
Occidental Corporation	68.3
Pacasmayo	35.5
Paramonga	23.0
Cerro Verde	20.2
Tintaya	18.0
Trupal	15.0

Source: Ministry of Mines and Energy.

ment corridors. In this way, the productive trapezoid of the south of the continent—which spans Brazil's south, Uruguay, and northern Argentina—will extend toward the Pacific, embracing Peru, South America's natural port to the Pacific Basin.

The Military Corps of Engineers

The history of the "economic miracle" has been associated with the organized participation of military corps of engineers in the construction of great infrastructural works. Again, the most illustrative case is that of the United States, where it was the Army Corps of Engineers that were in charge of the management, and in many case the execution of, the railroad network and the Great Canals projects. It was this Army Corps which canalized and linked together the Mississippi and Missouri basins in the 19th century. In the last century, they were involved in the construction of more than 2,500 infrastructure projects on various scales, and in encouraging the intense participation of private initiative in these works.

The history of Peru's military engineering battalions is also exemplary. They fought narco-terrorism under totally adverse conditions, building communications links which put an end to the isolation of narco-terrorist sanctuaries, and then built the highways that enabled them to link up the most remote peasant communities with the rest of the country. Under the circumstances of the current crisis, the military engineers are continuing to build highways, public works, schools, small and medium-sized hydraulic works, and more. Using these battalions, Peru would have the ability to mobilize its labor force on a military scale, to get these great projects built.

The state should therefore authorize the training of civil-military battalions for building development corridors. The military service conscription law should be used toward that end. Our youth, the majority of them unemployed and without a sense of the future, could become the protagonists in building a new Peru. We would thus resolve the serious problem of unemployment in our country, putting our youth to work in building their own future. Let us give them that opportunity (see **Table 5**).

TABLE 5
Peru: Employment
(thousands)

Employment	1997	1998
Labor force	7,116.8	7,366.1
Productively employed	50%	48.3%
Underemployed	41.8%	44.2%
Visible	17.7%	16.0%
Invisible	24.1%	28.1%
Unemployed	7.7%	7.6%
Total	100%	100%

Plans To Occupy the Territory

The occupation of Peruvian territory should be planned from the standpoint of optimizing its economic yield. At this point in history, it can't be anarchistic or happen spontaneously, particularly considering the geographical characteristics of the land, and the imposing Andean Mountain range which runs the entire length of Peru. Thus, it is vital to have a long-term perspective. Opting for the strategy of development corridors allows us to more precisely plan for these objectives.

If we opt for this development strategy, the three great transoceanic routes would also serve as productive axes. The occupation of our territory will be assigned by these three great development corridors, which will have an intensive flow of passengers and cargo from Brazil, Argentina, Paraguay, Uruguay, and Bolivia, toward Peru, toward the Pacific Basin, and from Peru toward the Atlantic. Inter-regional trade will be intense in both directions. Parallel to these productive routes, there could be built a succession of beautiful and shining cities, or the reconstruction of older cities according to an ordered plan of urban regulation. We would have abundant energy to feed our thriving industries—mining, machine-tools, light industry, general manufacturing, agro-industry, etc.—built around our cities. And between cities would be our breadbaskets, our agricultural centers.

This image sharply contrasts with that of today's Peru, which was not built according to a development master-plan. We are a chaotic country which has grown by spontaneous generation, lacking in physical integration.

In addition to the population shortage in Peru, we have the irrational distribution of our population throughout the national territory. With barely 25 million inhabitants, our population density is just 20 inhabitants per square kilometer. There are extensive jungle areas where population density barely reaches 1 inhabitant per square kilometer. Fifty-two percent of our population is located in the narrow coastal region; 35% lives in the inter-Andean valleys and the remaining 13% in the jungle and jungle outskirts. The greatest population density can be found in the cities of Lima, Trujillo, and Chiclayo, to the north, with 50 inhabitants per square kilometer, and to the south in Arequipa.

Choosing the strategy of development corridors will allow us to establish a "National Regulatory Plan for Territorial Occupation," which would respond to the country's new economic geography. We need to define the occupation of our land, not only in terms of infrastructural axes, but also with regard to the building of new cities, or the consolidation or reconstruction of the old ones. The state should begin a policy of relocation and concentration of the population in these "new" cities which, endowed with urban services and infrastructure according to scale, would permit the necessary minimal-optimal population densities for initiating a process of sustained industrial development.

In this sense, the recently launched Family Plot Program (Profam), through which the state is conducting a census of low-income families without housing, and providing them with a low-cost plot of land on which to build a home, could be transformed into the beginning of a process of population relocation, and their concentration in minimal-optimal densities for this purpose. If, however, Profam does not situate itself within a policy of industrial development that responds to planned occupation of our territory, and which in turn would form part of the development strategy we have delineated, it will become nothing more than a mockery of our citizens, a manipulation of their poverty. We have to resituate our population in urban centers close to what will become industrial complexes, where they will be able to find jobs with dignity. This relocated population, while building its city, could also participate in the construction of communications infrastructure and the other demands of the development corridors.

The schematic expression of our development corridors should simulate a great necklace of cities, which, like pearls, would hang at intervals, parallel to these productive axes. Our cities should, above all, be centers of culture and expressions of progress. The optimal size of each city, in a country like ours, should be in the range of 200-500,000 inhabitants. This would obviously depend on the relative potential population density of each geographic area, but if we take the successful urban planning experience of some developed countries, we would agree on this point.

It should be obvious to all that there are minimal-optimal densities for a city to justify itself as such, from the standpoint of being able to provide a better quality of services and infrastructure to the population. It is totally uneconomical and very difficult to share progress when the population is so dispersed, especially with the characteristics of our geography. The city thus conceptualized allows for a greater energy density per capita, that is, greater quality of life for the population, at less cost.

By launching the strategy of development corridors, we

The rugged terrain of the Peruvian Andes: Huaynapicchu Mountain. "Peru is a country which offers a genuine challenge to human creativity. . . . Our country was made this way by God, to pose a challenge to our ingenuity; it is a country for engineers."

El Infeirnillo Bridge in the Andes Mountains, built by American engineer Henry Meiggs in the 19th century.

will also be doing away with the myth, that Peru lacks high-yield arable land. There is no lack of land. What is lacking is adequate water management. Water from the Amazon and Marañón rivers would be transferred to the coast. Olmos would allow for the agricultural colonization of the northern coast, while the jungle rim region would thrive with the development of agro-industry and lumber industries. The successful pilot experiences which have already been initiated could be expanded throughout this extensive zone. Development will eliminate the drug trade.

A new, rapid railroad in the center of the country would cross the Andes, once again defying this untamed land and reminding us that, when the American engineer Henry Meiggs built a railroad here between 1860 and 1870, it was one of the greatest engineering feats of its kind. It was the highest railroad in the world, which crossed a majestic but narrow stretch of the Andes at an altitude of 4,500 meters above sea level. In the south, we will have channeled the waters of Lake Titicaca in order to irrigate the southern coast. We will have also expanded our agricultural frontier on the coast to nearly 2 million hectares. In the jungle rim region, we could make usable nearly 4 million hectares, and in the inter-Andean valleys, we could optimize the yield of its 1.8 million hectares.

The yield from agriculture and livestock production would thereby become the first parameter for measuring the growth of progress, and therefore, of the potential population density. Our cities will no longer be a succession of poverty belts and refuges for the apparent excess of unemployed rural population. Finally, we will have generated a cycle in which the development of economic infrastructure and the production of industrial goods, will encourage the continuous growth of rural productivity. Agro-industry and mining will in turn generate an ever-greater surplus, which would lead to a greater consumption of infrastructure and industrial products by the rural population.

Mining for Development

Peru has been and will continue to be primarily a mining country, given its enormous and still-unexplored mineral resources, above all in the Andes. According to information recently released by the Mines and Energy Ministry, Peru has 18% of the world's mineral reserves, and only 12% of these are presently being exploited. It is the case that investment should be concentrated in the area where there is guarantee of greater profits. But those profits have to be for the benefit of the country, and not for the world mineral cartels, as is currently the case. Mining only employs 1% of Peru's economically active population.

The problem is that the policy of exporting raw materials has been in force, which confirms the saying that "Peru is a beggar sitting atop a pile of gold." This has to change. The purely monetarist criteria which guide investment in mining have to change. The centers of mineral exploitation, which at present are largely in the hands of British Commonwealth multinationals, particularly the gold cartels, operate virtually as enclaves. These huge companies have no commitment to the development of infrastructure that would link the mining centers to the rest of the country. This stands in contrast to the fact that in recent years, the mining industry, especially of gold, has increased exponentially.

In fact, gross extraction of gold has been one of the areas in which there has been considerable foreign investment. However, under current conditions, medium and large investment in mining is not generating either progress or employment, only profits. An example of how mining reflects the return of colonial exploitation, is in the case of Huancavelica, the country's poorest province but, paradoxically, the one which contributes most to GNP because it is rich in gold reserves under the purview of the multinationals. In fact, the impact of mining is negative, since these companies plunder the area, without introducing improvements of any kind. Their contribution to the rural economy, and to the city of Cajamarca itself, is null.

Obviously, this has to change. The parameters of investment in, and management of, mining have to be changed, such that these companies are committed to contributing to genuine development, at least in the areas where they operate. The principle of equity has to be imposed here. Foreign investment is fine, but looting is not.

As we know, investment in mining, and above all in strategic materials, has become a kind of haven for the multinationals' vast capital flows, protected from imminent financial blowout. This kind of investment which extracts non-renewable wealth, should carry a heavier tax burden than any others. By the same token, it should be made policy that mining investment comes with a high value added, that is, using state-of-the-art technology. It should be an investment with a large technological component which is oriented toward generating advanced industrial-mining-metallurgical processes: We have to break ground in the area of ceramics, of strategic alloys, of superconductors, etc., industries which generate other industrial processes. The mining industry should produce jobs at high skill levels. It should also be directly associated with the creation of advanced mining-metallurgical technological institutes. It is in this sense that investment in mining should be considered a strategic investment, because it should be oriented toward the generation of durable wealth, as part of a chain of development.

Technology and Education

The metal-working and machine tools industries are necessary for carrying out a lasting and self-sustaining process of industrial development. This means technology, and the ability to both develop and assimilate technology. That is therefore crucial. In Peru's case, it can become a derivative of the mining industry.

The production of steel is of primary importance in this. Steel is the basis for the production of machine tools for industry, for mining, for fishing—another of our strong industries. We need to produce steel through high productivity, and to accomplish this, we need to realize the Nazca steel plant project, as well as to expand and modernize the Chimbote steel facility, which today is virtually abandoned.

We have what we need to build these industries. In fact, it is in mining-metallurgy that we have our greatest potential. This sector is one of the few in which we have a workforce with the greatest ratio of engineers, technicians, skilled workers. In any case, we have a young population ready to be trained.

It falls to the state to generate the conditions that would make this opportunity for our youth possible. Advanced research centers in metallurgy and alloys must be created in Huancayo; similarly, a network of specialized technological institutes needs to be created in all the great cities adjoining the development corridors. The specializations of these technological institutes will be determined by the industrial vocations of each development corridor. These institutes would be the seedbeds for the skilled workers and technicians needed by the mining-metallurgy industry, manufacturing, and agro-industry. They would be the seedbeds for our inventors, and for the businessmen behind our future small and medium-sized machine-tool industry.

Let us not forget that every year, another 50,000 youth finish their secondary education and are joining the workforce. The majority of these youth today have no future, and are just swelling the ranks of the unemployed. And yet, they are Peru's true wealth, as long as we give them the opportunity.

If we are to reap this wealth, we must expand the professional and engineering vocation among our youth, and guarantee that this will be their direction in the future. This can only be achieved through the adoption of a curriculum and educational methods designed to encourage, from infancy, a love of Classical arts, research, and discovery. It is a paradox, but in recent years, the flight of our professional talents abroad has grown, especially in the areas of science. And many of those who do remain, have no job options. The few that do, are not allowed to put their talents into practice.

How To Finance Development

With the package of national projects defined, both in infrastructure and industry, and the priorities determined, the immediate issue becomes the preparation of a budget and of an investment plan that answers the question: Who will pay for this, and how?

First of all, it should be obvious that this task cannot be left to the whims of the free market.

The answer is simple. As LaRouche has reminded us, it is the responsibility of the sovereign nation-state to establish a dirigist credit policy, to channel domestic savings and foreign capital into productive investments, on a small, medium, and large scale. This state credit should be selective credit, allocated to specific projects that are directly associated with the physical economy. Our industrialists need to be encouraged and protected. To this purpose, encouragement of foreign investment is of the greatest importance.

This policy should not belong exclusively to the state. Private banks can and should also participate in healthy competition with the state. A rigorous distinction must be drawn between what would be directed credit to infrastructure and production, and what would not. Policy distinctions should be made on a case-by-case basis.

Also, it is the state's responsibility to issue credit, either as money or bonds—IOUs—rediscounted and guaranteed by future yields and products. This credit should be issued in connection with a National Development Bank for Infrastructure and Industry, or with specialized corporations. Repayment terms should be set based upon the timing of estimated yield from each specific project. Grace periods for the beginning of repayment on credit should have the same consideration. Interest rates should be no higher than 3%, and should remain constant, since these are directed credits to industrial production and infrastructure whose yield rates cannot compete with purely speculative or unproductive activities.

Of course, it is not the responsibility of this National Bank or of these specialized corporations to grant credit for unproductive investments, nor consumer credit. This is a function of the private banking system.

A perfect example of such a credit system is the National Bank founded in the United States by Alexander Hamilton in 1791. This model later inspired the re-founding of a Second National Bank of the United States, in 1816. Later, the adoption of Hamiltonian methods of credit for development was fundamental to the recovery of the United States after the Great Depression of the 1930s.

Although Franklin D. Roosevelt did not establish a new National Bank, what he did create in 1933 was the Reconstruction Finance Corporation (RFC), which redefined banking policies—including that of the Federal Reserve—for purposes of generating credit for development backed by the future profits of those projects or products. The credits were to be repaid over the long term, with appropriate grace periods and low interest rates. The means by which Roosevelt did this was through the creation of various corporations empowered to issue IOUs, bonds, or other paper, guaranteed by the state, up to a certain limit. The Treasury was, in some cases, authorized to buy up this debt. In this way, both credit flow and return were guaranteed.

LaRouche recommends that, just as occurred with Hamilton's National Bank, the national banks should be authorized by law to issue a maximum amount of new money, corresponding to an estimated margin of additional employment and additional production, that could be set into motion by the government's economic policies. This credit is not inflationary. The critical connection here is between the emission of money and specific productive projects. With dirigist credit measures, which give priority to projects of physical economy that are needed for the economic and scientific progress of a nation, there is no inflationary credit. What must be achieved is analogous to what was done in the United States in the 1960s, through NASA's intensive space program, which generated technologies with an economic return of approximately $14 for every $1 spent.

We are talking about long-term, low-interest loans that could be allocated through two channels. First, the National Bank could directly issue credit to the government or to the appropriate state agencies responsible for the projects in question, which in many cases will be great infrastructure projects, such as energy plants, railroads, water management systems, and so forth. The credit could be directly employed to purchase equipment and materials and to pay labor costs employed in these projects, as well as for paying private and public subcontractors that might be hired to carry out aspects of the work. Secondly, the National Bank could provide low-interest credit, through participation of the private banking system, to industrial firms that produce the machinery and materials for the infrastructure projects, to help them expand and modernize their operations. The emission of new credit in this form creates what we could call a chain reaction of expanding production and employment. With each new round of purchases, a new cycle of production and expansion of employment takes place, as well as an increase in wages.

The German Credit Bank for Reconstruction (KfW) is another example of Hamiltonian banking. More important for the German post-war miracle than Marshall Plan money, was the mechanism adopted in Germany to transform payment of credit for merchandise into new investments. This was the reason for creating the KfW in 1948, inspired by the successful experience of the RFC in the United States. By 1953, the first repayments began, which were immediately channeled into new credit.

The KfW was founded to provide medium- and long-term credit to businessmen involved in reconstruction projects which other financial institutions considered high-risk and were not prepared to finance. This was the case for projects involving coal, gas, water, electricity, and transport. It was not a bank oriented to the model of the free-trade economy. Rather, it was a bank strictly committed to dirigist investments. KfW's technical executives, together with authorities from the economic agencies, proceeded to elaborate a "list of priorities" for reconstruction of the German economy. This list included: construction or reconstruction of railroads, highways, and national energy infrastructure; housing; construction machinery; local infrastructure, including roads and water supply; high-yield agriculture, agricultural machinery, production of fertilizers, etc. It also promoted export companies. The machine-tool industry was one of the most strongly encouraged.

Housing construction was an area of special attention. Initial estimated demand was for 5 million housing units. There was no free market for housing. Construction of housing would not have gone forward without state intervention. In 1950, some 350,000 houses were built. One of every eight houses was financed by the KfW. By 1956, nearly 3 million housing units were built. Government subsidies to public housing projects became an important pillar of the construction industry. It was only in 1960, after more than 6 million new housing units had been built, that conditions for creating a market appeared for this sector of the construction industry.

A mechanism that made the Credit Bank for Reconstruction's credits more attractive than those of the private banks, was that interest rates were kept constant throughout the entire term of the loan, although market interest rates rose drastically. And if interest rates fell, the debtor had the option of paying off his loan before the term was up. Credits were usually given for repayment terms of 10-30 years, with a 1-3 year grace period. For the reconstruction of post-war Germany, the KfW granted more than a quarter of a million individual loans directed to the "program for medium industry."

Clearly, there exist historic precedents for the kind of economic reconstruction that we are proposing for Peru. If we apply them with determination and creativity, we can look to the future with optimism.

Financial Oligarchy Goes On a Terrorist Offensive

by Elisabeth Hellenbroich

At a moment when the global financial crisis is intensifying, and a general financial crash is becoming more imminent, the Anglo-American financial oligarchy has started a new terrorist offensive around the globe, in the desperate hope of destroying every potential for regional economic and trade development. The main theaters of this strategy of tension and chaos, are Southeast Asia, Central Asia, and Europe, especially France, Spain, and Russia.

In Southeast Asia, since the May 6 Chiang Mai meeting, terrorism has hit the Philippines, Indonesia, and Malaysia, as "Islamist" separatist movements attacked. In the Indian-controlled part of Kashmir, numerous bloody assaults were launched, just at a time when the Indian government was intensifying its "Eurasian cooperation" with Russia and China. In Moscow, on Aug. 8, exactly one year after the attacks in Dagestan had reignited the Chechnya conflict, a bomb exploded in the Tverskaya Street subway station, at rush hour. Eight people died and 93 were wounded. Russian Interior Minister Vladimir Rushailo spoke of an "act of terrorism," while Deputy Chief of Staff Valeri Manilov held Chechen rebels responsible for the attempt.

In Central Asia, Tajikistan, Kyrgyzstan, and Uzbekistan have come under pressure from self-styled "Islamist" guerrillas, linked to the Taliban in Afghanistan. During Aug. 6-8, a force under rebel leader Nomongani, launched an invasion, reportedly from Tajikistan, into Uzbekistan. Nomongani's declared aim is to overthrow Uzbek President Islam Karimov. One senior Russian Orientalist told *EIR,* that Nomongani and his supporters are being actively backed by Afghanistan's Taliban. "This is all happening in parallel to what is happening in Kashmir, where the Taliban is also very active in supporting fundamentalist Islamic groups," the expert stated. "We are seeing a counteroffensive of radical Islamic forces, extending into the Indian subcontinent and Central Asia."

Furthermore, according to other regional experts, the Uzbek situation, aggravated by drought and severe economic crisis, could rapidly worsen. This could present Russia with "two wars," the ongoing one in Chechnya, and a looming conflict in Central Asia/Uzbekistan. In addition, if the crisis worsens, and if the Islamist terrorists were to prevail, there could be up to 5-10 million refugees fleeing into Russia. The Uzbekistan government took a resolute stand against the insurgents, as demonstrated in the statements of Foreign Ministry spokesman Bakhodyr Umarov on Aug. 10: "We don't intend to enter into polemics with bandits and terrorists. We can make them understand only one way, which means using force to destroy them." Uzbekistan President Karimov, in a telephone conversation with Kazakstan President Nursultan Nazarbayev on Aug. 9, reported that government authorities had located and identified 70-80 terrorists, and would proceed to annihilate them.

The Nation-State in the Crosshairs

In Europe, it is France and Spain that are under the guns in this strategy of tension, whose declared aim, separatism, is to destroy the integrity of the nation-state. From the standpoint of the Anglo-American financial oligarchy, France represents the last bastion of the defense of the nation-state (see article, p. 59). This is the reason why, at the beginning of this year, Federal Reserve Chairman Alan Greenspan spoke in a Senate hearing about the need to destroy that "dirigistic attitude" in Europe (meaning France). Former CIA director James Woolsey, in referring to the Anglo-American intelligence operation known as "Echelon," which the French government is officially investigating, singled out the dirigist French economic policy, "Colbertism" for attack.

Regarding the catastrophic crash on July 25 of France's Concorde supersonic jet, the Paris daily *Le Monde* raised the question, whether the crash had been the result of a terrorist act.

In Germany, a shrapnel bomb was exploded in late July at the metro station in Düsseldorf, whose authorship has still not been clarified. Notwithstanding, this, and other violent acts, have been used as an excuse to renew accusations that Germany is becoming a "Fourth Reich," (the original campaign was launched by then-British Prime Minister Margaret Thatcher in 1990 to sabotage German reunification). The Anglo-American-controlled press is fully complicit in making such specious use of these terrorist acts, seeking to discredit any and all opposition to globalization and the free market, as "right-wing extremist," to create a climate of paranoia and fear among the population, and to render the political class incapable of action.

ETA Terror in Spain

The global terrorist offensive has taken on especially brutal dimensions in Spain, where the Basque separatist organization ETA has committed 18 terrorist acts, after it officially announced in December 1999, that it was ending the cease-fire, which had begun in September 1998. So far, eight people have been killed, and more than 25 left wounded.

Beginning in July, ETA unleashed a vicious terror campaign, including car-bombs, "blind terror" bombings in public places, and outright executions of leading political and military figures. On July 12, a car-bomb exploded in Madrid; three days later, a leader of the People's Party was killed. On July 18, a bomb exploded in a crowded Basque marketplace, and the following day, a car-bomb exploded, targetting a member of the Socialist Party. July 24 saw a similar car-bomb attack, this time against a People's Party senator, and on July 29, a regional governor was killed.

On Aug. 8, two bombs went off, one in Guipuzcoana and one in Madrid, the latter near the home of a leading People's Party member, with a clear message to Prime Minister José María Aznar, that even government figures could be killed. The bomb, which left 11 wounded, went off just meters from the People's Party Organizational Secretary, who had been vice prime minister under Adolfo Suárez, and the former director of the Civil Guard. The other bomb killed businessman José María Korta, the chairman of the Adegi businessmen's federation, who had tried to generate a dialogue among all parties against terrorism. Korta, the owner of a machine-tool plant, was considered to be very nationalist and very close to the Basque National Party (PNV).

On Aug. 10, two ETA members killed an Army officer in his home, by shooting him in the neck, execution-style.

The goal of the Basque terrorists and their sympathizers, grouped in ETA's legal arm, Herri Batasuna—whom the chairman of the National Basque Party, Arzallus has been propitiating—is clear: to create an independent Basque state carved out of the French and Spanish Basque provinces, and thereby, to fully break with the central governments. Thus, the ETA insurgency, is designed to threaten the integrity of two nation-states. The more the ETA appears to lose support from the population throughout Spain, millions of whom have poured into the streets, to protest ETA terrorism, and who have no interest in a separate state, the bloodier the ETA attacks have become. ETA used the 14-month cease-fire, as *Le Monde* pointed out on Aug. 10, to reorganize its logistics and infrastructure completely. Thus, the ETA was able, despite the fact French and Spanish security forces have destroyed 17 ETA commando units over the last three years, to steal two tons of explosives in Brittany, France, and to arrange purchasing weapons supplies from eastern Europe, through German middlemen.

Le Monde also reported, that in connection with activities against ETA's international apparatus, which has links between Spain and underground ETA fighters in Ibero-America, Spanish Judge Baltasar Garzón spoke of a list of 170 businesses, that have financed ETA to the tune of $13 million. The network, Garzón said, stretched from France, to Colombia, Cuba, Panama, and Cape Verde.

The Financial Crash and the 'Gang of Five'

Lyndon LaRouche has identified in this growing number of terrorist offensives, a symptom of the imminent crash of the global financial system. Anyone who considers all these events as a whole, will recognize their common denominator. Evidently, the financial oligarchy, which has long lost control over its own system, is bent on weakening the growing resistance of emerging regional blocs, such as the Association of Southeast Asian Nations Plus 3, against global speculation and the unipolar arrogance of the British-American-Commonwealth group. French assertion of a degree of independence from Anglo-American policy, and joint Franco-German efforts in the financial-economic domain, have made those nations a target.

A well-informed Indian source has expressed to *EIR* his suspicion, that the terrorist actions in Central Asia, and Moscow, could be attributed to "Islamist" terrorists, who are steered by the "Gang of Five"—the group including Great Britain, Australia, New Zealand, Canada, and their partners in the United States. The intelligence services of these countries, he said, cooperate most closely on this.

On Aug. 11, the role of the British intelligence networks came to the surface. According to the German daily *Frankfurter Allgemeine Zeitung,* the Russian domestic security agency FSB, accused a British organization, Halo Trust, which is officially supposed to help in removing land mines, of training Chechen terrorists in the war against the central government. And, in the Uzbek destabilization, the British Broadcasting Corp., has hosted interviews with the terrorists. Following a BBC interview with the spokesman for the Islamic Movement of Uzbekistan, Zubair Ibn Abdurrakhman, and the BBC's broadcast of false information regarding supposed terrorist military victories, the Uzbekistan government warned the British against acting as the mouthpiece of the militants. The Foreign Ministry press secretary stated that Tashkent "will be drawing certain conclusions" regarding the British radio and TV broadcasting.

The Cease-Fire in Kashmir Is a Step in the Right Direction

by Ramtanu Maitra

The unilateral declaration of a cease-fire on July 24 by the militant Hizbul Mujahideen in Kashmir, and the Indian government's positive response to the cease-fire, has opened up an opportunity to restore peace in the Indian part of Kashmir. Though resolution of the overall Kashmir conflict is not in sight yet, a step in the right direction has been taken. It will take a lot of cooperation by forces in both India and Pakistan, as well as by the international community, to make the Hizbul-New Delhi talks a success and pave the way to defuse the Kashmir problem once and for all. At the moment, the promise of a breakthrough is founded on treacherously thin ice.

How fragile the situation is, can be best understood by what happened in Kashmir on Aug. 1: Within a span of 24 hours, in four separate attacks, extremist groups led by the Pakistan-based Lashkar-e-Toiba, with the Afghan mujahideen acting as mercenaries, gunned down more than 100 people in cold blood, including 32 Hindu pilgrims making their way to the holy shrine of Amarnath. Lashkar-e-Toiba and the United Jihad Council, to which Hizbul belongs, opposed the cease-fire and went on a rampage. The objectives were to force the Indian Army to break the cease-fire, discredit the peace process, and even trigger an anti-Muslim wave of hostility among the pro-Hindu religious groups in India.

Fragile Cease-Fire

Both New Delhi and the Hizbul have withstood the first wave of violence, perpetrated to break off talks, and have begun to work out the modalities for future talks. Differences cropped up as the Hizbul Mujahideen, formed about 11 years ago by Pakistan's Inter-Services Intelligence (ISI), and which operated as the militant wing of a mainstream Pakistani political party, the Jamaat-e-Islami, demanded tripartite talks involving Pakistan. India categorically rejected the demand, but there are indications that, if the talks proceed in a promising manner, Pakistan will be allowed in. Hizbul also set Aug. 8 as a deadline for talks to begin, and has complained that India has broken the cease-fire. The Hizbul Mujahideen, which differs from other Kashmiri militant groups in that it wants Kashmir to become part of Pakistan rather than independence from both India and Pakistan, will, no doubt, continue to exert pressure, and both the Indian and Pakistani governments will have to weigh in to keep the talks going.

However, there is hope. The cease-fire came about following intense efforts by New Delhi, Islamabad, and, to a large extent, Washington. Pakistan's Jamaat-e-Islami chief, called the "Ameer," Qazi Hussain Ahmed, was in Washington for a whole month working out the details of a cease-fire. There are indications that the recent visit of Chinese Foreign Minister Tang Jiaxuan to both India and Pakistan helped to bring about the present breakthrough. It is also refreshing to note that the Kashmiri Jamaat-e-Islami has welcomed the talks and quickly re-elected Ghulam Mohammad Butt, a moderate religious leader, as the Ameer. A number of Kashmir-based militant groups have also supported the cease-fire and talks.

Kashmir is not the only pressure point in Pakistan. Pakistan is financially bankrupt, one of the poorest countries in the world. The country spends about $3 billion on defense. Given debt service payments of $3.5 billion, little more than $100 million was left for development this year. Pakistan is seeking debt rescheduling, but the International Monetary Fund is sitting on Pakistan's shoulders, dictating terms. There is a strong possibility that Pakistan may default at the end of this year.

India, too, has suffered badly because of Kashmir. Increased deployment of the Army to tackle the insurgency in the northeast and in the state of Jammu and Kashmir in the northwest, reduced India's growth rate by 40% during 1989-91.

The citizens of both these developing nations are faced with widespread poverty, appalling levels of infant mortality, poor health, lack of education, and access to the basic necessities of life.

Background of the Crisis

The Kashmir conflict, which erupted in 1947 and has triggered three wars between India and Pakistan, is extremely complex and cannot be resolved either arbitrarily or legalistically. It will require genuine effort by both India and Pakistan. To say the least, give and take is the key to success.

Kashmir, which includes an India part and a Pakistan part, was a Muslim-majority province long before the British came to India. Kashmir was never directly under the British, but remained a princely state under a Hindu Maharaja. In 1846, Britain signed the Treaty of Amritsar with the Maharaja—for 7.5 million rupees and a promise to accept British supremacy. The Dogra kings kept immediate control of Kashmir.

On Aug. 14, 1947, the day the subcontinent was parti-

FIGURE 1
The Afghanistan and Jammu and Kashmir Areas of Conflict

tioned into India and Pakistan, and the British left, the Kashmir Maharaja, Hari Singh, had the option of joining either Pakistan or India. As Hari Singh was weighing the decision, on Oct. 22, Pakistani tribesmen, and soldiers in the garb of tribesmen, entered Kashmir.

Maharaja Hari Singh, at that point, beat a hasty retreat. He hurriedly signed the Instrument of Accession to join India, and sought the help of the Indian Army to drive back the invaders. The Indian Army drove them out of the Kashmir Valley, but they were still in the northwestern third of Kashmir when India brought the issue to the United Nations in 1948. India conditionally offered to hold a plebiscite under UN supervision. On Aug. 13, a UN Commission proposed that the people decide the state's future. That meant that the Kashmiris could vote for Pakistan or India, or decide to form an independent Kashmir. Pakistan, buoyed by the fact that the majority in Kashmir are Muslims, accepted the resolution on Dec. 20, 1948. India rejected it on the grounds that Pakistan did not withdraw its forces from Kashmir.

On Oct. 17, India gave the India part of Kashmir, Jammu and Kashmir, the special status it enjoys to this day, and an interim constitution for the state came into effect in November.

On March 21, 1949, Adm. Chester Nimitz of the United States was designated Plebiscite Administrator by the United Nations, and on July 27, 1949, the Karachi Agreement was drawn up on the basis of which the cease-fire line was delineated and ancillary points settled. However, India continued to resist the plebiscite.

The Karachi Agreement and the delineation of the cease-fire line did not resolve the fundamental problems. Kashmiri leaders within the India part of Kashmir, inspired by the UN resolution, continued to agitate for an independent Kashmir and provided fodder to the pro-Pakistan elements that wanted all of Kashmir to belong to Pakistan. Powerful Kashmiri families, such as the Abdullahs of Srinagar, in alliance with the mullahs, kept the pot boiling. Pakistan became involved in 1965 and again in 1972, through armed invasions. It became more and more clear that the ball was in India's court, and that India would have to play a major role to resolve the dispute and bring peace to Kashmir. But, it also needed Pakistan's cooperation.

Geopolitical Interests

The Kashmir issue fell victim to a number of important geopolitical dynamics. To begin with, the British colonialists, the perpetrators of the "Great Game" in pre-war days, wanted Kashmir to remain independent and a strategic outpost of Britain in a very sensitive area. With Russia and China having become communist, and India independent, it was only natural for the British to act to ensure that the Kashmir issue would never get resolved. In Britain, a number of pro-independence Kashmiri groups formed, and they worked in tandem with some British politicians and British intelligence. "Human rights" luminaries, such as Lord Avebury, and the British intelligence-linked Amnesty International, used India's "heavy-handedness" against the Kashmiris to British advantage. Pakistan, whose military depended heavily on arms purchases from the West, went along with British interest in the United Nations.

What, however, made the situation even more tenuous, was the Cold War. With China and Russia in the enemy camp, and India disaffected toward the West and sidling closer to Moscow, the Kashmir issue was put on the Cold War chessboard. U.S. Secretary of State Madeleine Albright's father, Joseph Korbel, became the U.S. "handler" for Kashmir, and he steadily pushed for U.S. policy to follow that of Britain. And, there was a reason.

Pakistan, despite its intransigent conduct along the border, became an important ally of the anti-communist crusaders of the West, while India's 1974 testing of nuclear explosives, and its refusal to become a signatory of the Nuclear Non-Proliferation Treaty, earned the country "pariah" status. Western intervention into the Kashmir issue during this period followed the pattern: India was told it must accept the UN resolution and allow a plebiscite.

The Kashmir issue came to the fore in 1972. After the 1971 war between India and Pakistan, the subsequent negotiations between the late Prime Minister Zulfikar Ali Bhutto of Pakistan and the late Prime Minister Indira Gandhi of India resulted in the Shimla Agreement. In order to establish durable peace, both governments agreed that Indian and Pakistani forces would be withdrawn to their respective sides of the international border, and that, in Jammu and Kashmir, both sides would respect the line of control resulting from the cease-fire of Dec. 17, 1971, without prejudice to the recognized position of either side.

In the 1971 war, the Pakistani Army was badly mauled. Through India's active participation, Bangladesh was created out of East Pakistan. The Indians captured 92,000 Pakistani soldiers, and imprisoned them in a camp in the State of Bihar. The Indian Army also captured a significant amount of Pakistani land in Punjab, which, like Kashmir, straddles the India-Pakistan border. There are many in India who believe that if Indira Gandhi had played tough, she could have extracted adequate concessions from Pakistan at that point, which would have led to the resolution of the Kashmir issue. However, things remained as they were.

The Next Watershed

In 1989, almost a year after the Soviets had left Afghanistan badly bruised, the Indian part of Kashmir blew up. Prior to the Soviet invasion, Pakistan's military, having been defeated soundly by India and having lost almost half of Pakistan, was in the dog house. Following the Soviet invasion of Afghanistan in 1979, the pro-British factions in Washington moved in to shore up Pakistan's military with arms and cash, and to carry out a proxy war against the Soviets in Afghanistan, based on a plan called the "Arc of Crisis," cooked up by Madeleine Albright's mentor, Zbigniew Brzezinski. Taking a page from British geopolitics, Brzezinski's Arc of Crisis envisaged encircling the U.S.S.R. with hostile "Islamic fundamentalists." (These very "Islamic fundamentalists" were then the cannon-fodder of the George Bush/Oliver North Iran-Contra operation.)

Pakistan's military ruler, Gen. Mohammed Zia ul-Haq, a religious fanatic, used the money, guns, and Washington's sweeping support to rebuild the Army with mullahs and fellow fanatics. All that helped in the *jihad* against the "godless" Soviets.

It was also during this time that Pakistan and the *jihadis*—recruited from the underground of various Islamic nations and Afghanistan—moved in in a big way with the heroin and hashish trade. Pakistan, which had had a smattering of heroin addicts before 1980, soon became a haven for heroin addicts—Islamic tenets notwithstanding. The arms bazaar and narcotics trade made the Pakistani Army and the mujahideen wealthy and powerful.

In 1989, two things happened: First, India's Congress Party, which had ruled for almost the entire period since 1947, lost the general elections, and a weak coalition government came into existence. Second, in August 1988, the Soviet Army withdrew from Afghanistan, leaving the *jihadis,* armed and powerful, without a cause.

The inevitable followed. The Afghan mujahideen, including Afghanis, Sudanese, Algerians, Egyptians, Tunisians, Yemenis, and others, launched a crusade in Kashmir—and also turned their guns on other Afghans. The new *jihad* began, and the Indians responded with force. Violence became unbearable in Kashmir, and at one point it seemed that India would not be able to quell the uprising. India deployed a massive army to deal with the *jihadis,* and as a result, more violence occurred, and Kashmiris became further alienated from New Delhi.

The influx of mujahideen from Afghanistan into Pakistan, over the open border, began to subvert Pakistan's internal security. A number of incompetent, corrupt, and self-seeking democratic governments in Pakistan allowed the situation to deteriorate rapidly. Within Pakistan, a number of terrorist groups grew, and, in later years, sectarian killings began in earnest.

The Post-Cold War Scene

In 1988, with the withdrawal of the Soviet troops from Afghanistan, and the mysterious assassination of President Zia ul-Haq in a plane crash, Western support for Pakistan began to wane. Media reports of the degeneracy of the *jihadis,* their narcotics trafficking and rampant terrorism, turned them into "forgettables." While the West quickly forgot what it had done to Afghanistan and Pakistan in its fight against the Soviet bloc, it could not wish away the mujahideen.

In the post-Cold War days, Washington, along with the rest of the West, began a damage-control operation to contain, and eventually, eliminate the monsters that they had created. This once again threw a spotlight on Kashmir. The West recognized for the first time that the terrorists couldn't be curbed unless one of their main killing grounds—Kashmir—was made inaccessible. This called for resolution of the Kashmir dispute.

In 1998, the issue got pushed a notch further up the agenda. In May of that year, India and Pakistan each carried out several nuclear tests, bringing the danger of a nuclear war to the subcontinent. These tests woke up a slew of geopoliticians. Some went to work to force both countries to give up their nuclear and missile programs. Others alleged that both countries were ready to attack each other with nuclear weapons over Kashmir. Others worried that these two hostile nations might pass on their nuclear weapons to nations such as Iraq.

Local Initiatives

Under pressure from the West, which had imposed sanctions against both India and Pakistan in the aftermath of their nuclear tests, India made the first move. In February 1999, India's Prime Minister Atal Behari Vajpayee took a historic bus ride from New Delhi to Lahore, Pakistan to meet his counterpart, Prime Minister Nawaz Sharif. The objective was to build the foundation for friendly relations. This called for resolution of the Kashmir conflict as well.

It was evident from the outset that the "bus ride" was fraught with danger, when three Pakistani services chiefs, who considered it humiliating to salute the Indian Prime Minister, failed to show up at the India-Pakistan border town of Wagah, where the Pakistani Prime Minister welcomed his Indian counterpart.

The brief interlude of promise for Kashmir came to an end abruptly in July, when the Indian Army discovered that Pakistani soldiers and mujahideen had infiltrated in huge numbers into the Kargil sector in the north. Although the Indians drove the intruders back within a couple of months, it became evident that Islamabad controlled neither the terrorists, nor the mujahideen, nor even its own army. In October, the Pakistan Army, under the leadership of Gen. Pervez Musharraf, carried out a coup against Prime Minsiter Nawaz Sharif and came to power.

The next important intervention took place this year, when U.S. President Bill Clinton visited India, Bangladesh, and Pakistan on March 19-25. During his visit, the Kashmir issue was kept in the forefront as the militants went on a rampage, killing 45 Sikhs in a Kashmiri village. Clinton exerted pressure on Islamabad to curb the mujahideen and the *jihad*-seeking terrorists, and renewed efforts to resolve the Kashmir dispute were put into motion.

Since then, things have moved at a fast clip. First, in May, the Indian Prime Minister released from prison a number of leading Kashmiri militants belonging to the All-Party Hurriyat Conference (APHC), a local group of politicians who have supported militancy and extremism from time to time. New Delhi began to negotiate with the APHC with the objective of bringing peace to the Kashmir Valley—the center of violence and extremism.

A few days later, Jammu and Kashmir Chief Minister Farooq Abdullah, whose party is a partner in the coalition government in New Delhi, pushed a resolution in the state legislative assembly to seek more autonomy. Abdullah feared that the New Delhi-APHC talks were an attempt to undermine him politically, and that his party, the National Conference, would have to share political power in the state with the APHC.

As Prime Minister Vajpayee was smoothing Abdullah's ruffled feathers, the Hizbul Mujahideen announced the ceasefire onJuly 24. The extremists, who are still killing randomly in an attempt to sabotage the talks, have accused the Hizbul of getting the formulation scripted in Washington. While such sweeping accusations have limitations, it is true that Washington has leaned heavily on Islamabad to get "something" going.

What is evident now to both India and Pakistan, is that the Kashmir issue cannot be resolved militarily. Islamabad has realized, but is not in a position to act upon it decisively, that the *jihadis* need to be curbed and that a better relationship with India would help Pakistan economically.

However, the Kashmir issue has become entangled with Afghanistan, where the civil war between religious fanatics under the Taliban flag and the non-Pushtoon alliance continues, threatening to destabilize the Central Asian situation as well. This thread still needs pulling.

London Goes Berserk against France

by Mark Burdman

Leading circles in London, and among London's co-thinkers in Washington, are in a state of apoplectic rage against France. The French have recently "broken the rules" on several fronts, including Foreign Secretary Hubert Védrine's attacks on the phony "democracy" extravaganza of U.S. Secretary of State Madeleine Albright in Warsaw in June, and, more recently, his insistence that the American and British bombings of Iraq be stopped, and that the sanctions policy against Iraq be eased. The French government has also distanced itself from crucial aspects of Anglo-American pro-speculation, "free-market" policies, by throwing its support behind the so-called "Tobin Tax" on international financial transactions.

As we reported last week, Lyndon LaRouche associate Jacques Cheminade, former French Presidential candidate and head of the Solidarité et Progrès organization, has stated, that the Anglo-American hostility toward France is a central factor to be taken into account, in establishing the context for suspicions, among leading circles in France, that the July 25 crash of the French Concorde supersonic jet may have been an act of sabotage and terrorism.

'Very Unhelpful to Great Britain'

Cheminade pointed, for example, to the July 19 speech by former British Prime Minister Margaret Thatcher, at the neo-conservative Hoover Institution in Palo Alto, California. In that speech, in the course of expressing her enthusiasm for the candidacy of George W. Bush for U.S. President, the old degenerate ranted against France, for its "delusions of grandeur," in allegedly trying to create a "European defense identity" that would weaken NATO. She said that France must be stopped, since it is "behind all the attempts to reduce American influence in Europe. . . . In the 21st century, the dominant power is America, the global language is English, the economic model is that of Anglo-Saxon capitalism."

This mind-set was expanded on by her guru, Lord Harris of High Cross. Harris was formerly head of the Mont Pelerin Society-linked Institute of Economic Affairs in London, and is often credited with having "created" Thatcher. During an Aug. 7 discussion, his lordship exploded against French policy in Europe, as "very unhelpful to Great Britain." He complained, that the French are "constantly talking negatively about what they call the Anglo-Saxon economies, blaming them for imposing a 'wild market economy' on the world.

Margaret Thatcher is chewing the rug over signs that France is exercising some independence from Anglo-American power.

The French prefer a corporatist-collectivist approach, and have been historically protectionist for some centuries. The French have been against us, in every stage."

Getting more and more emotional, Lord Harris declared that "the French political ruling class is horrid. The French governing class is a disgrace!" Asked whether he agreed with former CIA director James Woolsey's recent polemic, that the essential fight between the Anglo-Americans and the French is that the Anglo-Americans follow British "free trade" ideologue Adam Smith while the French follow the *dirigiste* ideas of the 17th century's Jean-Baptiste Colbert, Harris exclaimed, "Woolsey is absolutely right, absolutely correct! France's problem, is that it never had an Adam Smith, and that it is obsessed with Colbert."

Harris raved that "a lot of the worst elements in French policy come from a Catholic authoritarian tradition. I'm a Church of England man myself. I know Europe's problem very well, it is not only a French problem. These so-called 'founders of Europe,' [Italian post-World War II Prime Minister Alcide] de Gaspari and [West Germany's Chancellor Konrad] Adenauer, they all come out of this Catholic authoritarian philosophy. They believe that the Pope is at the top, and their approach is one of imposition. Another example, is this Frenchman [Jacques] Delors, the former president of the European Commission. He's a typical French Catholic, who is obsessed with building up Europe as French-German-centered, in order to take on the Americans and the Far East. This is *folie de grandeur* [delusions of grandeur]."

Harris also denounced French President Charles de Gaulle as "typically French, with his *folie de grandeur*. He was an impossible man."

Informed of Thatcher's Palo Alto fireworks, he mumbled, emotionally, "Good old Maggie, good old Maggie."

'Europe of the Regions'

Cheminade also referenced a lead editorial in the July 27 *Wall Street Journal-Europe,* threatening that France would "break up," because of the pressure of various "secessionist" movements, if the French government continued to oppose the policies of British Prime Minister Tony Blair.

This line was also purveyed in an editorial in the mid-August edition of the London *Economist* magazine, a mouthpiece of the City of London. Under the title "Undoing France," the editorial began by quoting de Gaulle: "There can be no security, no freedom, no efficiency, without the acceptance of great discipline under the guidance of a strong state, and with the enthusiastic support of a people rallied in unity." In this way, the *Economist* stresses, "the father of the Fifth Republic identified two elements which have come to define contemporary France: a strong state, embodied by a powerful Presidency, and a unified people, living in an indivisible republic. Today, the French tend to regard these two features as emblems of their identity, and a source of the Fifth Republic's political stability."

But now, "astonishingly," there are two separate proposals "on the table" in France that should change all this, the *Economist* exulted. One is a "devolution plan" for Corsica, the other, a referendum on Sept. 24 that would shorten the Presidential term from seven to five years.

With these in mind, the magazine writes that such tinkering with the Fifth Republic structure "carries risks. Already, the Corsican plan has emboldened other regionalists, including Basques and Bretons, to press their claims—and they may do so with force. Gaullists have a point when they declare that it 'undermines national unity and the indivisibility of the republic.'

"Yet perhaps this should be welcomed. At a time when many European countries are responding to a growing popular appetite for regional self-government, in part promoted by the fashionable talk among Euro-enthusiasts of a 'Europe of the regions,' France stands out, as one of the last great centralized powers on the continent. Nothing in the current proposals suggests an imminent break-up of the French republic. Nor would that be desirable. But some loosening of the grip of the powerful center would be no bad thing."

"Europe of the Regions" is a program of the British and the shards of the old Austro-Hungarian Empire oligarchy, for destroying nation-states across Europe.

Southern Africa Slaps British on Zimbabwe

by Dean Andromidas

The summit meeting of the heads of state of the 14-nation Southern Africa Development Community (SADC) on Aug. 7-8 gave strong support to Zimbabwe and its President, Robert Mugabe, delivering a slap in the face to the Anglo-Americans. The move occurs following a high-intensity campaign, particularly in the last six months, to overthrow the government of President Mugabe. The immediate conflict has been over the Zimbabwe government's determination to redistribute land to landless Zimbabweans. The closing statement of the conference demanded that Great Britain "honor" its commitment to finance the purchase of commercial farms.

The move flies in the face of an Anglo-American effort to mobilize the region's leaders to support the overthrow of Mugabe; in fact, not one African leader has denounced Mugabe. In his speach before the summit, the chairman of the SADC, Mozambique President Joaquim Chissano, attacked the West for putting a "blanket" over the history of the freedom struggle. He said that the SADC cannot condone the idea that those who fought Ian Smith, the former Rhodesian Prime Minister, could now be challenged and even called dictators. He said, "We are democrats; we want democracy to work according to the will of the people." The statement rang true for many of the leaders present, including the Presidents of Angola, South Africa, Namibia, as well as Zimbabwe, all of whom had led freedom movements against their former colonial masters.

Former South African President Nelson Mandela, whom the Western press is attempting to portray as anti-Mugabe, in his speech praised the Zimbabwe President, along with the late Joshua Nkomo, as examples of African leaders who had reconciled their differences for the good of the nation.

Britain Told To Honor Its Obligations

The conference issued an official statement supporting Zimbabwe's land policy, and calling on Britain to "honor its obligations" and pay for the purchase of the farms. It further said, "We are disappointed by the partisan and biased manner in which a sector of the international media have misrepresented the land policy of the government of Zimbabwe," and that the policy "seeks to effect a just and equitable redistribution of land in a situation where 1% of the population owns over 70% of the best arable land. We reiterate our acceptance of the urgent need to effect land redistribution in Zimbabwe to address land hunger and poverty affecting millions of black Zimbabweans. . . . We welcome the assurance given by the President of Zimbabwe that the land reform program would be handled peacefully, and within the laws of the government of Zimbabwe."

The statement also endorsed the recent parliamentary election results in Zimbabwe, describing them as having been held "in a transparent, peaceful, free, and fair environment, in accordance with our shared democratic principles and values."

In Zimbabwe, 4,500 farmers and foreign corporations own 70% of the country's best farmland, leaving the vast majority of the country's 10 million citizens either landless or working small plots of land. Support for Mugabe also stems from the fact that many of the other countries in the region, particularly fellow SADC members Namibia and South Africa, suffer similar, although not as extreme, land problems.

The statement also denounced the Zimbabwe Democracy Act, passed by the U.S. Senate in June. "We note, with concern, that the bill also aims to subvert Zimbabwe's economic foundation by prohibiting assistance of debt relief. . . . This punitive piece of legislation is counterproductive and unjust since it will have far-reaching negative implications for the economic development and evolution of democratic institutions in Zimbabwe, in particular, and the region in general."

The Zimbabwe Democracy Act was sponsored by U.S. Sen. Bill Frist (R-Tenn.), a strong backer of George W. Bush, and a strong supporter of the Sudanese People's Liberation Army's genocidal war against Sudan (see *EIR,* July 7, 2000). The bill calls for the suspension of bilateral assistance to the Zimbabwe government, including debt relief, and instructs U.S. directors of the International Monetary Fund (IMF) and the World Bank to vote against the extension of credit to Zimbabwe. The Zimbabwe government has mobilized internationally against the bill.

The summit also designated South African President Thabo Mbeki and President Bakili Muluzi of Malawi to lobby Britain to release resources to fund the land reform program, as it had promised.

The statement has apparently upset the London-based Zimbabwe Democracy Trust (ZDT), which ran a report headlined "Southern African Leaders Support Mugabe and, Like Him, Blame Everybody Else." The ZDT is the command center for the overthrow of the Mugabe government (see "London Headquarters Established To Overthrow Zimbabwe's Mugabe," *EIR,* May 12, 2000). Among its patrons are Lord Peter Carrington, business partner of Henry Kissinger, and Chester Crocker, who was a State Department official in the Reagan-Bush Administrations in the 1980s and 1990s.

A regional free-trade protocol aimed at promoting intra-regional trade and integration was also signed at the conference. According to President Chissano, it will go into effect on Sept. 1.

The final communiqué also identified AIDS as a major security issue: "The summit expressed its concern that the

HIV/AIDS epidemic in southern Africa continues to be a major developmental and security issue, with more than 10% of the adult population infected in some countries."

During the conference, SADC Acting Executive Secretary Prega Ramsamy told the summit, "We now appeal for the cancellation of multilateral debt, as in most countries this is the source of problems preventing government from responding to urgent social needs, particularly in health and education."

Land Redistribution Widens

The SADC support comes right at the time that Zimbabwe has begun the land resettlement process, and also announced the expansion of the program. More than 200 of the first 804 farms designated for redistribution are now in the process of having their land redistributed to the landless. At the same time, the Zimbabwe government intends to increase the number of farms designated for redistribution from 804 to 3,000 by the end of the year.

On July 31, President Mugabe's official spokesman George Charamba told the state-owned *Herald* daily, that the government's National Land Acquisition and Redistribution Committee has agreed "to expedite the process of identifying more farms" for settlement.

Local Government Minister Ignatius Chombo is quoted: "The numbers are not important. What is important is that we are accelerating the resettlement program and that we are involving all stakeholders in the process. . . . The resettlement process technically has started at a very fast pace. This coming week we are going to see quite a lot of persons being settled in all provinces." The military will be employed to assist in the process of redistribution. The government wants to resettle up to 500,000 people before the rainy season begins in October.

The expansion of the program follows efforts by the Anglo-American-backed opposition to escalate its attack on the government. This was signalled by the formation of yet another British-based front, the so-called Zimbabwe Farmers Holiday Trust Fund, based in Great Britain (see *EIR,* July 28, 2000). No sooner was this group organized, than commercial farmers threatened a national strike, implying that the country would be faced with starvation. The strike was supported by the opposition Movement for Democratic Change and the Zimbabwe Congress of Trade Unions. But, both actions fizzled out. The commercial farmers, who mostly grow tobacco or horticultural products for export, account for less than 20% of the country's food supply—thus the starvation threat was somewhat hollow. The strike was cut back from four days to one, because its only effect would have been to hurt the same business community that supports the opposition.

Nonetheless, pressure on the government continues, particularly by the IMF and World Bank, which have cut all aid to the country since 1998. In early August, the government devalued its currency by 25%, in the face of an inflation rate of 50%.

The Goble Project

Nasty Geopolitics in the Transcaucasus

by Hovhannes Galajian

This is adapted from an article published in the Armenian weekly Iravunk.

While Armenian peasants were busy trying to sell this year's bumper harvest of apricots, and urban residents were wrapped up in the conclusion of the investigation into the assassinations in Parliament last Oct. 27, radio station "Azatutiun" broke in with some troubling news. It seems that geopolitician Paul Goble, who is associated with Radio Free Europe/Radio Liberty, has not forgotten about Armenia's southern district of Megri, and is still thinking about new projects for exchanges of territory among Transcaucasus countries.

Not long ago, Goble admitted that the first version of what became known as the "Goble plan," offered in 1992, did not take regional circumstances into account. The new version suggests that Megri be exchanged for the Sadarak region of Nakhichevan, a district of Azerbaijan that borders on Turkey, but is separated from the rest of Azerbaijan. Nakhichevan would then be contiguous with the rest of Azerbaijan, but not with Turkey, while Armenia would still have a land border with Iran. The disputed Nagorno-Karabakh district would either become a separate country, or join with Armenia. It would seem that the new version is designed with an eye toward the restoration of relations between the United States and Iran.

Like previous such prescriptions, the new Goble plan is far from being in the national interests of Armenia. Since the armistice of 1994, after the Armenia-Azerbaijan war over Karabakh, Armenia has had its pre-existing 150 km border with Iran, while the land connection of Karabakh with Armenia was secure, and optimal from the standpoint of defense, and Nakhichevan remained divided from Azerbaijan by a rather wide barrier. If the new Goble project were implemented, the Armenia-Iran frontier would shrink to 25-30 km, Azerbaijan and Nakhichevan would be contiguous, and the Lachin Corridor between Karabakh and Armenia would be reduced to only a few kilometers, insufficient for security. It would take only a few hours to cut Lachin, as well as Sadarak, if Turkish Army participation is presumed. Nor would Azerbaijan obtain an advantageous situa-

FIGURE 1
The Transcaucasus Region

tion, and it is doubtful that Baku would agree to have no border with Turkey.

Evidently this version is ideal, only for that section of the Anglo-American elite, interested in the process of globalization. The mutual vulnerability of the countries of this region will allow the "globalizers" to dominate the region with ease, and to dictate any condition they please. They would have the opportunity to change the fates not only of such small countries as Armenia, Georgia, and Azerbaijan, but also Iran and Turkey, and to control Russian influence in this region.

Armenian Foreign Minister Vartan Oskanian reports that the co-presidents of the Minsk group (dealing with Nagorno-Karabakh) of the Organization for Security and Cooperation in Europe, who recently visited this region, did not have anything new to offer, and there is nothing more to be expected from them. Probably only Armenia and Azerbaijan will look for new versions of a solution, but this search will be done at the prompting of the capitals of superpowers. It is obvious from Oskanian's words, that the search for any version is now quickening. "It is is in everybody's interest," he said, "including ours—Armenia, Karabakh, Azerbaijan—to solve this problem as soon as possible. Today, nobody is interested in a merely temporary solution, or postponement of this question."

The best demonstration of a "temporary solution" is the so-called Turkish Republic of Cyprus, which has been in a "temporarily solved" status for almost a quarter-century. There is a dangerous parallel of the words of Oskanian with those of ex-President Levon Ter-Petrosian from his notorious article, "War or Peace: Time To Be Serious": "It is not beneficial for Armenia and Karabakh to have this question remain unsettled." So, it should be understood that pressures on Armenia are increasing.

Russia's Role

What happens with the new edition of the Goble plan, depends on Russia, and on the results of President Robert Kocharian's meeting with President Vladimir Putin. It is less probable, but not to be excluded, that the Russians and Americans will choose a model of joint governance of the region. Experts suggest yet another version of mutual concessions: Russia would have military control, while the U.S. exercised economic dominance over the Transcaucasus. Any such mutual concessions between the United States and Russia, however, would likely be violated as need arose.

As for the response of the Armenian elite, President Kocharian and Foreign Minister Oskanian assure that they are not negotiating yet about any such scheme, Defense Minister Serge Sargsian remains silent, and Prime Minister Andranik Markarian is strict, saying: "Armenia is not going to make its strategically important territories a question for negotiation." Moreover, the government has adopted a plan for the social and economic development of Megri.

It is natural that Markarian, appointed only in May, will seek to strengthen his position. Thus, a late-July session of the government rejected the draft regulations on rallies and demonstrations, which would have barred such activities near government buildings. It is clear that this restriction would have benefitted those whose position is already strong, such as President Kocharian and Defense Minister Sargsian. But, naturally, the threat of imposition of the new Goble plan will be a strong incentive for forces across the political spectrum, to unite.

Taiwan's Relations with China Improve

by Leni Rubinstein

After great tension immediately following the election of Chen Shui-bian as President of Taiwan in March, the cross-strait situation has since improved considerably.

The election of Chen Shui-bian, the former leader of the pro-independence Democratic Progressive Party (DPP), increased the danger of conflict across the Taiwan Strait. Immediately following the elections, China's President Jiang Zemin made it clear in discussions with leading visitors from Taiwan, including former Speaker of Parliament Liang Su-rung and legislator Fung Hu-hsiang, that the new government in Taiwan had to publicly, and unambiguously, state its support for the principle of "one China." Failing to do so would mean war.

'Like a Great Poem'

However, the combination of the successful meeting in Chiang Mai, Thailand of the Association of Southeast Asian Nations plus China, South Korea, and Japan in May, a heightened awareness of the danger of a new speculative assault on Asia, and an intense schedule of meetings and seminars across the Taiwan Strait, began to change the course of developments. Further, the historic meeting between the Presidents of North and South Korea, on June 13-14, helped pave the way for a decisive change. As a leading individual from Taiwan explained: "The meeting between the leaders of the two Koreas is like a great poem. The most important effect is in the overall idea and is not visible."

At a press conference a few days later, on June 20, President Chen Shui-bian took a cue from the preceding week's historic Inter-Korean Summit. He said that the photograph of President Kim Dae-jung of South Korea and Kim Jong-il of North Korea stepping forward to shake each other's hands, is hanging in his study, and that the picture has been an inspiration to him. "If the two Koreans can, why can't we?" he asked, adding that leaders across the Taiwan Strait possess similar wisdom and creativity, and could also rewrite history. Chen Shui-bian further said that he believes that as long as both sides display good will and sincerity in their talks, they can formulate a definition of "one China" that would be acceptable to both, and he is "confident that we can jointly deal with the question of a future 'one China' based on the existing foundation"—meaning the conclusions and agreements reached in past negotiations between the two officially authorized intermediary bodies.

Cross-Strait Visits Increase

On June 25, a 36-member delegation from Taiwan's Chinese National Federation of Industries travelled to China for an eight-day visit, designed to inspect the mainland's economic and trade situation, and to see the areas in which Taiwan businessmen can render their assistance. Their itinerary included Beijing, Shanghai, and the special economic development zones in Pudong, Wuxi, and Kunshan, and meetings with several mainland Chinese officials in charge of trade and economic affairs. While in Beijing, the group met with Chinese President Jiang Zemin, who expressed his hope that Taiwan's industrial sector will be able to play a more important role in the development of cross-strait relations. He also expressed his hope, that Taiwanese investors will show interest in the development of western China. Later the same day, Beijing's State Council hosted a dinner in honor of the Taiwan visitors at the Great Hall of the People.

At the same time, more than 2,000 businessmen from mainland China, Hong Kong, and Macau, as well as more than 1,000 businessmen from Taiwan, participated in a Guangdong-Taiwan trade fair. The mainland's number-two negotiator with Taiwan, Tang Shu-bei, delivered a speech at the opening of the fair, in which he reiterated that Taiwan and mainland China can discuss any issue, as long as the discussions take place under the "one China" principle.

In early July, a delegation of legislators from Taiwan's pro-unification New Party, led by Fung Hu-hsiang, made a six-day "cross-strait reconciliation promotion" visit, to meet with officials in Beijing, as well as with China's top Taiwan negotiator, Wang Daohan, in Shanghai. The delegation was invited by the Association for Relations Across the Taiwan Strait, and marked the first party-to-party engagement between the two sides in 50 years. The New Party delegation's visit was front-page news in the English-language newspaper *China Daily* for several days. The delegation met with China's top Taiwan policymaker, Vice Premier Qian Qichen, followed by a press conference for media executives from Taiwan, in which Qian threw out a couple of bombshell formulations that could lead to a breakthrough in negotiations.

First, Qian Qichen said that "one China" should not be interpreted from the viewpoint of "it must be either me or you," and added that the Republic of China or the People's Republic of China "means almost the same thing . . . that is, one China." He further elaborated that the 1972 Shanghai Communiqué, signed between mainland China and the United States, mentions that both sides of the Taiwan Strait acknowledge that there is only one China, while it falls short of detailing the actual definition of "one China." "This is a very good foundation for improved cross-strait ties," Qian stated. Ever since former Taiwan President Lee Teng-hui's provocative statement last year, that mainland China and Taiwan have a special "state-to-state" relationship, official spokesmen from mainland China have repeatedly said, that "one China" means the People's Republic of China. Vice

Premier Qian Qichen's statements open the door for resuming official discussions between mainland China and Taiwan, discussions that were suspended by Beijing after Lee Teng-hui described the Taiwan-China relationship as "state to state."

Second, Qian Qichen said that Beijing would welcome visits to the mainland by officials of the Kuomintang party, and any other parties that do not support the splitting of Taiwan and China. As to a visit by the pro-independence DPP, Qian said that it must voice its support for the "one China" principle, before it can send a delegation.

The response was immediate. Taiwan Prime Minister Tang Fei, the very next day, stated that Beijing's good will, demonstrated by mainland China's Vice Premier Qian Qichen's remarks, are signs indicating that there is the possibility for a resumption of talks between the two sides. And, the Vice Chairman for the Mainland Affairs Office, Lin Chong-pin, also welcomed the recent good will that has been displayed by mainland Chinese authorities, saying that it creates a silver lining to the cross-strait deadlock.

Two days after mainland China's Vice Premier had stated that officials from Taiwan were welcome, a delegation of elected representatives arrived in Beijing for a four-day visit aimed at pushing for resumption of dialogue and peaceful exchange. The delegation was composed of 19 Kuomintang legislators, one People First legislator, and four county councilors. The delegation met with President Jiang Zemin and Vice Premier Qian Qichen, and visited mainland China's State Council.

'Mainland China Fever'

Since the Presidential election in March, 52 political party officials have travelled to the mainland, some elected officials making several trips, resulting in Taiwan President Chen Shui-bian expressing concern about the "mainland China fever" affecting opposition legislators in Taiwan.

Related to these developments are the instructions by Vice Premier Qian Qichen to the State Council's Central Office for Taiwan Affairs at the end of July, to invite agricultural specialists from Taiwan to Gansu, a major province in western China, for talks on joint development of agriculture in China's "Great West." The State Council is planning a cross-strait investment workshop on joint development of the western part of China, to which 100 agricultural specialists, as well as business leaders and related representatives from Taiwan, will be invited.

Currently, preparatory seminars are taking place in China to prepare several conferences to be held in the United States and Europe in the autumn, with the focus being cultural and economic collaboration, to educate and mobilize overseas Chinese toward a future reunification.

Colombia's 'Demilitarized Zone' Is a Command Center for Nazi Genocide

by Javier Almario

The 43,000 square kilometers of Colombian territory which treasonous President Andrés Pastrana surrendered to the narco-terrorist FARC as a supposed condition for beginning peace negotiations—territory which has ironically come to be known as a "demilitarized zone" (DMZ)—is today the central command headquarters for a foreign operation seeking to splinter the Colombian nation, impose bloody tyrannies on the shards of territory that remain, loot natural resources, and carry out genocide against the Colombian population, all to the benefit of Wall Street/City of London financiers.

On Nov. 7, 1998, the government officially created the DMZ, withdrawing all military and police forces, and leaving five townships, with a population of more than 90,000—Mesetas, San Vicente del Caguán, La Uribe, Macarena, and Vistahermosa—in the hands of the narco-terrorist FARC (**Figure 1**). In less than two years, the DMZ, located in the center of production and trafficking of coca, cocaine, opium, and heroin, has become the command center for a full-fledged assault against the nation, and yet the Pastrana government continues its "peace process," without any backing from the Colombian people. Indeed, Colombians view Pastrana's so-called "dialogue" with the FARC as a concession to narco-terrorists whose apparent interest in peace is but a cover for seizing power and establishing a dictatorship.

In sharp contrast to the view of the average Colombian, Pastrana's illusory "peace dialogue" and the DMZ are fervently encouraged by the U.S. State Department, international bankers, the United Nations Organization, numerous non-governmental organizations (NGOs), and the British designers of this entire policy to destroy the sovereign nation-state.

Indeed, international bankers gathered on July 26-28 at a seminar entitled "Wall Street Looks at Colombia," where they spoke of the "balkanization of Colombia," and of the "territorial division" of Colombia among competing terrorist groups. These bankers, invited to the meeting by the New York-based Council of the Americas, and by the Colombian think-tanks Fedesarrollo and the National Association of Financial Institutions, have met with the FARC—some openly and some secretly—and continue to insist on the need to maintain the DMZ and to continue the "peace dialogue."

FIGURE 1
Colombia Is Being Handed over to the FARC Narco-Terrorists

On July 4, during the annual assembly of the Bishops Conference of the Roman Catholic Church in Colombia, Msgr. Alfonso Cabezas, the bishop of Villavicencio, charged that the FARC had turned the DMZ into "a concentration camp for kidnap victims," where the FARC holds in captivity children, businessmen, soldiers, police, relatives of prominent Colombians, and so on, in anticipation of receiving huge ransoms to finance their continued terrorist operations. From the DMZ, and with the treasonous collaboration of President Pastrana, the FARC is blackmailing the media, and the various social strata of the country, into going down on their knees and, like slaves, accepting a de facto FARC government. Former kidnap victims of the FARC maintain that not only does the DMZ contain concentration camps, but also "extermination camps," where kidnap victims are executed when their families are unwilling, or unable, to pay their ransoms.

In pursuit of its illusory peace, the Pastrana government is deploying the entire national leadership of the country to FARClandia, as the DMZ is known inside Colombia. Thousands of candidates for public posts are trekking to FARClandia, to literally seek permission from the narco-terrorists to conduct their political campaigns. Those who don't, face death threats against themselves and their families, and are either forced to withdraw their candidacies, flee, or be killed.

The DMZ is also an arena for the forced recruitment of children, who are dragged into the FARC's war against Colombia. There are reports that, in various parts of the country, street gangs are kidnapping children, and selling them to the FARC as slaves, for $250 to $5,000 each. These children are trained to carry out attacks against the FARC's targets, and are the first to die as cannon fodder in the growing number of terrorist assaults the FARC has been carrying out against towns outside the DMZ. Most of the kidnap victims are registered as "missing" or "runaway" children, who are generally ignored by the press because the majority of them belong to poor families. The training camps are in the El Caguán zone, named for an important river which crosses FARClandia.

When the DMZ was made official in 1998, just a few months after Pastrana took office, the government also included in the package the surrender of the region's 100,000 inhabitants as virtual slaves to the FARC. The first thing that the FARC did was to shut down schools, and to force children and youth into obligatory training with the FARC. The FARC also expelled civil authorities—mayors, judges, prosecutors, notaries, and so forth—from the region. It expelled Catholic priests, Protestant ministers, professors, and anyone who might be viewed by the population as an authority figure.

During the first few days of the DMZ's existence, the FARC told the people that, from that point onward, they would be under the complete authority of the FARC, and that any and all of their activities—entering or leaving the area, buying or selling cattle, food, merchandise, homes, or land, hiring workers, and so forth—had to be explicitly authorized by the FARC. Similarly, the FARC announced that all agricultural production would be used and distributed according to FARC guidelines. All individual liberties disappeared. Despite threats, hundreds of DMZ residents fled the zone, and denounced assassinations, child kidnappings, and theft of cattle, crops, and real estate, by the FARC.

The DMZ is also where some of the most important financial and economic deals in Colombia are being struck. To discuss new "investment opportunities," the FARC leaders in the DMZ have already been visited by New York Stock Exchange president Richard Grasso, by America OnLine (AOL) director Jim Kimsey, by the cream of Colombia's business elites, and by innumerable international businessmen and financiers. Would-be investors in Colombia, including executives of multinational oil companies, international supermarket chains, and banks, make a point of first visiting the FARC in El Caguán, to negotiate the terms of the "tax" that the FARC has levied against the country's business elites, which at the moment stands at 10% of their patrimony.

A former leader of one of the FARC's military commands claims that, with the help of experts brought in from what were at the time the Soviet Union and East Germany, deposits of uranium, titanium, and other strategic minerals were discovered in the Serranía de la Macarena, a natural park which today constitutes part of the FARC-run DMZ. It is suspected that these resources figure in secret negotiations between U.S. operatives and the FARC.

Also, many of Colombia's traditional businessmen have been forced to abandon the country because of "security" problems and, before leaving, have sold their businesses to one or another multinational, which benefitted from a prior arrangement with the narco-terrorists. Thus, thanks to the FARC, "globalization" is proceeding apace in Colombia.

Worst of all is that the only thing the Pastrana government has done for Colombia is to carry out a policy designed by the City of London and Wall Street, and enthusiastically encouraged by the U.S. State Department. This was confirmed by outgoing U.S. Ambassador to Colombia Curtis Kamman, who, in an interview with ANCOL news agency on July 31, said that it was "unfortunate" that the U.S. government "cannot have direct contact with the FARC until it hands over those responsible for the crime against the three indigenists" (a reference to three U.S. Indian leaders who were assassinated by the FARC), but that the United States "encourages other countries and international agencies to converse and maintain contact with the FARC." Kamman held out the possibility that the U.S. government would officially invest money in the FARC-controlled zones, once a "more solid" peace agreement was reached.

That is, while U.S. officials are not legally permitted to hold direct dialogue with the assassins of the three Americans, the U.S. State Department is using its international diplomacy to encourage nations in Europe, Ibero-America, and elsewhere to support the FARC and carry out all sorts of deals with the narco-terrorists.

Indeed, it was precisely such U.S. diplomatic support which enabled the Pastrana government to organize an "international audience" for the FARC on June 29-30, on illegal crops and "alternative" development. The event was attended by ambassadors from Europe, Ibero-America, Japan, and Canada, as well as by UN officials Jan Egeland and Jean Pierre Gontard. These officials were received at the San Vicente del Caguán airport by the FARC's "financial secretary" Raúl Reyes, with all the pomp of state-to-state diplomacy. The meeting was held at the former military base of the Batallón

Cazadores. The international delegates listened with rapt attention to the FARC's proposals for legalizing the drug trade, an aim shared with speculator George Soros.

The U.S. Embassy and U.S. State Department also encourage ongoing campaigns to paralyze Colombia's Armed Forces, with arbitrary accusations of "human rights" violations designed to prevent the military from maintaining Colombia's territorial integrity. In a situation where there are at least four private quasi-armies operating in Colombia, and the nation's Armed Forces are under explicit orders not to conduct any offensive actions against these groups, the Colombian Attorney General's office, Prosecutor General's office, the NGOs, and the U.S. State Department accuse officers of human rights abuse "by omission," for having failed to prevent massacres carried out by these terrorist hordes. As the saying goes, "damned if you do, and damned if you don't." If one were to pursue the same argument in the United States that is being used against Colombia's military, police agents and Pentagon officers would be sitting in jail today for all the murders committed in the city of Washington, D.C.

Caguán: Epicenter of the War

From the Caguán region, the FARC's 20,000 terrorists control half of Colombia's national territory. In that zone, which encompasses the eastern plains, the Amazon, and the provinces of Caquetá, Huila, Nariño, Cauca, and part of the Cauca Valley, the FARC is imposing identity cards different from the official citizen registry card all Colombians carry. From the Caguán, the FARC announced that any Colombian with assets of $1 million or more must surrender 10% of their income to the FARC, or face kidnapping and eventual assassination. Immediately, they carried out an action designed to paralyze with terror the vast majority of Colombians. In the town of Chiquinquirá, in front of television cameras, FARC terrorists detonated a bomb that had been glued to the neck of a respected local farmer who had refused to pay her "tax." In view of the widespread repudiation of the crime, the FARC leadership decided to deny authorship, while the ever-compliant Pastrana government, fearful of damaging the "peace process," "ingenuously" accepted the narco-terrorists' denial.

From the DMZ, the FARC has carried out the destruction of 230 Colombian townships, beginning with Mitúa on the border with Brazil. Colombia has a total of 1,070 townships. All the towns that have been attacked by FARC commandos have been decimated, as if hit by tornados. The FARC's *modus operandi* is to use gas cylinders converted into high-caliber mortars. The detonations, while ostensibly directed against the local police stations, nonetheless end up destroying 80% of the homes in the town, leaving those inhabitants without a roof over their heads and forcing mass exodus. Also targetted in each town they hit are the clinics and schools, evoking chilling reminders of the Khmer Rouge genocide in Cambodia.

The Pastrana government has decided to withdraw police forces from 189 of the townships that have been attacked by the FARC, leaving their populations at the mercy of the narco-terrorists, or what the government euphemistically calls "common criminals." Medellín and Cali, the country's second and third most important cities after the capital of Bogotá, have suffered repeated car-bombings and large-scale dynamite attacks, directed against Army and Police headquarters. The FARC and their National Liberation Army (ELN) allies have gone from individual kidnappings to collective kidnappings on highways, airplanes, and at religious and social events.

The result is that, in 1999, there were nine kidnappings a day, while in 1995, there were three a day. It is estimated that in 2000, that figure will rise to 18 a day. The FARC and ELN target every social strata for kidnapping, not just the upper classes. Even minimum-wage workers are forced to pay $500 to ransom their children from the terrorists. Today, there are an estimated 72 assassinations every day in Colombia, a record number. As can be imagined, these levels of insecurity and the fear they produce, are seriously affecting economic activity in the country.

Armed Forces officers, who are unjustly accused of virtually every massacre or assassination that occurs in the country, are also under legal siege—half of the country's active officers have been legally served by the offices of either the Attorney General or Prosecutor General. The government is also under orders from the International Monetary Fund to strangle the Armed Forces by cutting their budget. Newly appointed Finance Minister Juan Manuel Santos, a vice president of the pro-drug-legalization Inter-American Dialogue, has ordered cutbacks in intelligence budgets, soldiers' rations, weapons outlays, and the operating expenses of the Armed Forces.

Some sources say that the only chance the Colombian Army and Police have, is the so-called "Plan Colombia," military aid which the United States has approved for Colombia. However, this "aid" is a far cry from the help—financial aid, training, and matériel—that Colombia's military needs if it is to beat back narco-terrorism. Ambassador Kamman, for example, forbade the use of U.S.-donated BlackHawk helicopters by Colombian police forces on July 21, when they were urgently needed to rescue wounded police officers besieged by the FARC. The result was that the police were killed (see box).

The U.S. law that approved "Plan Colombia," explicitly establishes that U.S. aid can only be used to combat the drug trade, and not against "insurgent groups"—that is, the FARC and the ELN. If used other than during anti-narcotics operations, that law states, the aid will be suspended. This law draws a non-existent distinction between the drug trade and terrorism.

Where Is the FARC's Money?

There has been a lot of guesswork regarding how much money the FARC has collected through the drug trade, kidnappings, bank robberies, and from "quotas" or "taxes" against the population. Some researchers say that the FARC has collected the equivalent of 10% of the Gross National Product (that is, some $10 billion); others speak of even larger sums. The government speaks very conservatively of $1 billion a year. It is known that the FARC and the ELN have given money to keep the bankrupt Cuban economy afloat, and to finance operations by the international terrorist organization, the São Paulo Forum, in the rest of the Americas. Jorge Briceño, alias "Mono Jojoy," has brazenly stated that if the government wants the FARC to stop kidnapping, it will have to come up with $2 billion a year (twice the government's defense budget!) to compensate for what the FARC would otherwise be "earning."

The question is: In what banks has the FARC stashed its ill-gotten cash? What investments does it have on Wall Street? And what is being done with that money? One of the answers is that it is buying high-caliber weaponry. In its DMZ, the FARC has tanks, some of them made there, using parts from caterpillar tractors. Thanks to the Colombian government, the FARC is building bomb-proof bunkers, airports, airstrips, and shelters of every kind. It is known that it is buying surface-to-air, air-to-air, and air-to-surface missiles, and it is suspected as well that the FARC is buying combat airplanes on the international black market. There is already a flotilla of airplanes in Caguán, which are used for both transport and resupply.

Despite the U.S. government's evident diplomatic backing for the FARC, the FARC has issued a standing invitation to the United States to invade Colombia so that it can wage its "anti-imperialist war." It threatens to take out the sophisticated weaponry it has hidden away and to use it. The State Department's refusal to back the Colombian nation-state against the narco-terrorists could create a Frankenstein's monster that will turn on its own creators, igniting the entire Andean region. Some sectors of society fear that the FARC will serve as an excuse for the Anglo-Americans to give Colombia the "Iraq treatment."

Life under the FARC

In recent weeks, the FARC has begun a systematic campaign of terrorist attacks on dozens of small Colombian towns that had little or no capability of defending themselves. Two examples follow:

Some 300 FARC terrorists descended on the town of Arboleda, in the province of Caldas, on July 29. During a 36-hour siege, they detonated 250 propane gas pipebombs, setting fire to much of the town. People fled to the nearby mountains as their town burned to the ground. At least 12 policemen and four civilians were murdered, and their bodies mutilated. The police commander of the province said the terrorists played soccer with the heads of some of their victims.

On July 14, the town of Roncesvalle, in Tolima province, was attacked by FARC terrorists, and razed. When its tiny police force ran out of ammunition, and walked out of the ruins with their hands up, the FARC executed them one at a time, with a single shot to the head. According to military and police intelligence, this FARC strategy of taking no prisoners is designed to force the government to withdraw the outnumbered police forces from these small rural towns in an ever-expanding area beyond the FARC-controlled DMZ, thus effectively abandoning the population to FARC tyranny.

Resistance

The artificial growth of the FARC, whose creation seems to have been designed by the computers in the psychological warfare division of London's Tavistock Institute, presupposes that a defenseless, terrorized, and broken Colombian population will blindly accept the division of the country into separate "coca republics" under FARC tyranny. However, the government has thus far failed to create a new DMZ in the north, as had been its plan, because of the population's furious opposition. The government had hoped to turn the southern portion of Bolívar province into a new demilitarized zone for the ELN, which would consolidate the partition of the country. Twenty thousand peasants, with the backing of another 100,000, have thus far blocked the government from carrying out this latest travesty. The peasants and the local authorities have been accused by the Pastrana government, and by the FARC/ELN, of being "paramilitaries" and "enemies of peace," charges which in Colombia constitute assassination threats. Former Armed Forces commander Gen. Harold Bedoya (ret.), the only visible national leader to have defended the Bolívar peasants, has been similarly attacked.

Despite the fact that approximately 1 million Colombians have fled the violence in Colombia since 1998, there is developing among those who cannot or will not leave, a reaction of "Enough!" to the crimes of the FARC and the ELN. Until now, and thanks in large part to pro-terrorist propaganda by the "human rights" NGOs, the population has simply been a victim. Because of government inaction, the war has been between the FARC/ELN narco-terrorists, who enjoy a virtually unlimited budget for sowing chaos and terror, and a population which the government has refused to defend: as the saying goes, "a battle between a tiger and a hobbled donkey." But slowly, people are starting to lose their fear of death, as they, their children, and their very nation are pushed up against the wall. A small but definite crack in the victim's mentality surfaced recently, when the country's business sectors collectively decided that they would not give a cent in "tax" money to the FARC, even in the face of death.

WATER AS A STRATEGIC FLANK

Wherein Clinton Failed

by Lyndon H. LaRouche, Jr.

August 6, 2000

Obviously, there remain aspects of President Clinton's discussions with Ehud Barak and Yasser Arafat which I do not know. That notwithstanding, I am nonetheless well situated to judge a more limited part of those negotiations. I focus here on what I do know with certainty: the specific nature of the President's awful strategic blunder of omission, in his stating publicly his relevant Middle East policy.

President Clinton has been, and presumably still is, an exceptionally intelligent fellow among our recently elected Presidents, and, in some respects, an unusually capable politician. On both counts, he has been the most intelligent, if certainly not the most effective President since John F. Kennedy. Among his failings, he lacks a competent approach to strategic thinking. He showed his best side in the Treaty of Westphalia-modelled "exit strategy" he had proposed for getting out of the 1999 Balkan war. Unfortunately, in that case, as in other instances, his inclination to be ineffective, was demonstrated by the way in which he abandoned his own exit strategy, once the bombing had ended.

In the matter of the Middle East peace negotiations, his potentially fatal strategic blunder ought to be obvious to any competent strategic thinker; it was obvious to me, and has been to numerous other senior specialists with relevant knowledge of the situation. Lest one might otherwise doubt that view, we have a taste of the threatened outcome of that strategic failure, in the subsequent recent political developments inside Israel itself.

However, despite the damage done, there is still the possibility of salvaging the situation, although, admittedly, the crippled intellects of either Vice-President Al Gore or Governor George W. Bush, like either Secretary of State Albright or Condoleezza Rice, would do their utmost to sabotage the President undertaking any sensible approach to that situation. This report presents that much-needed strategic option which dangerous fools like Bush and Gore would attempt to prevent.

Recent events have shown, once again, that the possibility of a peace within the domain of Israel and Palestine, is not a result which could be decided by the Israelis and Palestinians alone, nor even in simple concert with the President of the U.S.A. The issue lies, most immediately, in the hands of a large number of peoples and governments, covering the territory from the borders of Iran and Turkey, westward to the Atlantic coast of North Africa. That is to say, not only the Middle East, but the entirety of northern Africa.

In addition to the immediately interested parties of that combined Middle East and North Africa area, there are weighty influences from outside the domain of Arab and Hebrew-speaking nations, most notably those from the governments ruled by Her Britannic Majesty (most notably the U.K., Canada, Australia, and New Zealand) and political factions controlling the candidacies of both Governor Bush and Vice-President Gore inside the U.S.A. For these Anglo-American, outside meddlers, the Middle East exists only as a geopolitical pawn of both global petroleum interests and also the vast mineral resources of Central Asia. For these outside interests, the object is to keep the Middle East as inherently unstable as possible, to continue to serve the global geopoliticians as a perpetually unstable flank on the region of Turkey, Iran, Transcaucasia, and beyond.

Thus, to bring about a workable peace within the present territory of Israel and Palestine, these larger realities must be addressed directly, and with most efficient forcefulness. Otherwise, every time an outbreak of peace between Israel and the Palestinians is threatened, a powerful concert of outside forces will intervene to prevent that peace from coming about. There will be interventions by interested factions, for and against such a peace, from within the sweep of the region of the Middle East and North Africa; there will be more notable interventions from the indicated Anglo-American, "geopolitical" interests.

These have been the realities of the Middle East region, since the Napoleonic wars and the beginning of the British monarchy's interventions into the break-up of the otherwise self-doomed Ottoman Empire. These have been the geopolitical realities of the region since Britain's Admiral Fisher and the backers of Halford Mackinder added specific emphasis on the "geopolitics of petroleum."

In such a situation, every competent strategist recommends, "You must outflank these enemies." President Clinton, Ehud Barak, and Yasser Arafat were sitting in a foxhole called Camp David; there they sat and talked, while the Anglo-American geopoliticians were merrily dropping political mortar-shells and hand grenades into the foxhole at leisure. Without a suitable flanking strategy, President Clinton's efforts, whatever their merits otherwise, were doomed.

Water: The Political Flank

During recent weeks, my associates and I have once again restated the desalination-based economic development program we first presented to relevant Arabs, Israelis, and others a quarter-century ago. Most notable such proffers have been the "Oasis Plan" presented nearly two decades ago, and our proposed inclusion of such development in both the "Productive Triangle" plan of 1989-1990 and the "Eurasian Land-Bridge" extension of the "Productive Triangle" plan, launched in 1992-1993.

I do not intend to restate that Middle East development policy in full, again, here. I limit our attention to a few points which supply the bench-marks for the strategic approach to be taken at the present critical juncture.

Without an immediate and massive infusion of a complex of projects of building large-scale development of basic economic infrastructure—notably water-management, power development and distribution, and public transportation of freight and passengers, no durable peace can be foreseen for the Middle East region during the course of the decades ahead. In light of the character of the terrain, all effective such development, and therefore all possibility of durable peace, depends absolutely on very large scale desalination.

In most of the region, and especially for the largest portions of the area, there simply do not exist sources of supply of usable water sufficient to meet the elementary needs of the population. Hence, without large-scale desalination programs being put immediately into operation, there is no hope for durable peaceful relations among the populations of this region. To propose peace without such desalination programs, is like recommending deep-breathing exercises to people living within a vacuum.

Any attempt to separate the issue of large-scale desalination from Israel-Arab peace negotiations, foredooms the peace-negotiations either to a failure at the outset, or to a breakdown of any agreement reached temporarily.

The political connections ought to have been obvious from before the Camp David talks began.

In any discussions between Palestinians and Israelis on the ground in the Middle East, the crucial margin of political forces affecting the negotiations, is among Jews and Arabs living outside the territory of Israel and Palestine.

As we have seen in the instances of the assassination of former Prime Minister Rabin and comparable threats to Prime Minister Barak, the principal source of threats to Middle East peace from the Israeli side, come from foreign-based, violence-prone, right-wing Zionists, many fairly described as irrational fanatics, who are the key factor in the extreme right within Israeli politics itself. These right-wing foreign intervenors include key elements of the backing of, and even control over Governor Bush and Vice-President Gore.

In the case of the Palestinian party, we have a parallel situation. Palestinians living in exile, and both various Arab governments and their political parties and factions, have an influence over Yasser Arafat's freedom to negotiate more or less comparable to the foreign pressures on the Knesset.

Therefore, unless effective steps are taken to outflank politically the anti-peace foreign influences, the chances continue to be poor, even negligible, that a durable Middle East peace agreement could actually be reached. In such a situation, in which decades of bloodied hatred have accumulated, not only between Israelis and Arabs, but among contending factions within each of those sides, only a formula modelled upon the success of the 1648 Treaty of Westphalia could succeed.

For the Israeli and Arab populations of that region generally, the human conditions of life of the majority have been declining ever since the Mont Pelerin Society's Milton Friedman introduced his ruinous, Bush-like, Gore-like, Thatcher-like policies to Israel during the course of the 1970s. Only a reversal of that Thatcherite-like decline in the conditions of life of most of the population of the region, can supply the fertile ground of cultural optimism, upon which those steeped in decades of hatred will give up those lusts for vengeance, which dominate the region, that for the sake of the blessings of peaceful progress for themselves and, more important, their children and grandchildren.

There can be no peace, under such circumstances, in that region, without large-scale, rapid growth in public works of basic economic infrastructure. No such program could function without massive infusion of large-scale programs of production and regional distribution of desalinated water.

Only in an environment premised upon a better life for the families of the region, a political-economic environment premised upon that U.S. constitutional commitment to that general welfare which both Governor Bush and Vice-President Gore have repudiated, can any U.S. President hope to be believed when he speaks of his desire for Middle East peace.

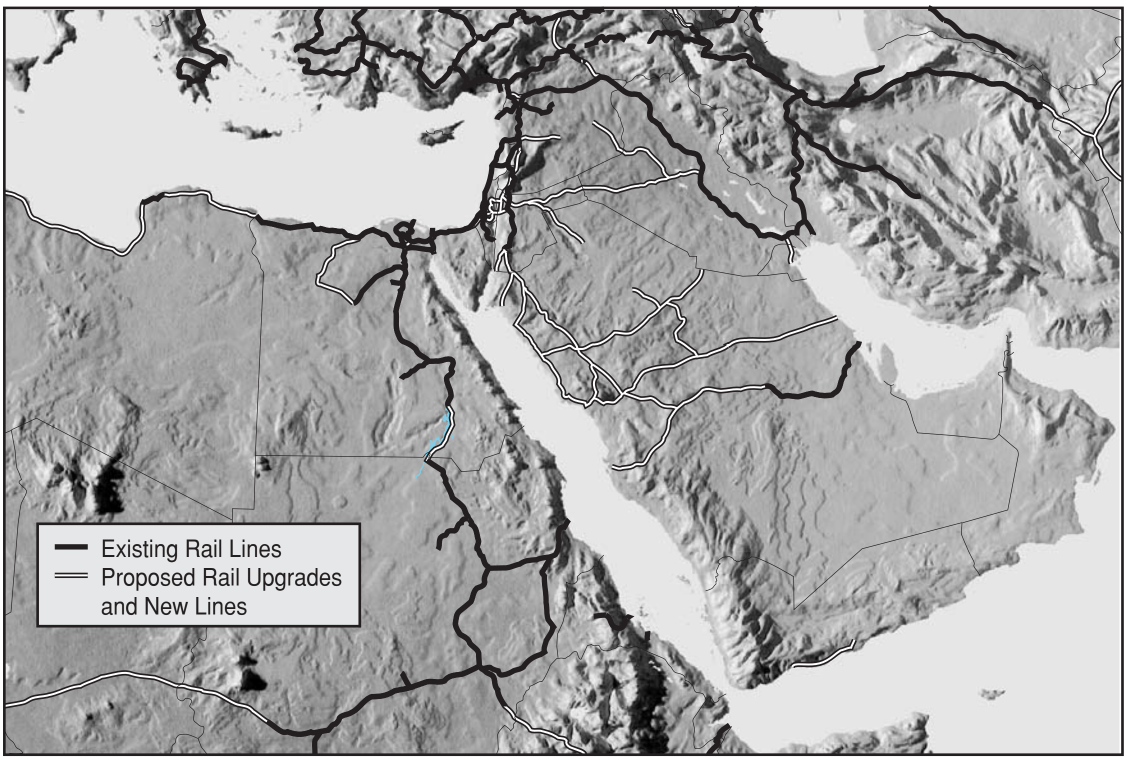
As in military history, as for Alexander the Great, for Hannibal at Cannae, and elsewhere, the principle of the strategic flank lies essentially in the relatively superior state of mind of the greater commander. To induce Israelis and the relevant non-Palestinian Arab governments and factions to come, however reluctantly, into the camp of peace, a new state of mind must be rallied from among the peoples of the region. Such a state of mind can be evoked in but one way: the credible promise of a program of regional development, a development not possible without early large-scale public works in building basic economic infrastructure, a program of public works which would be futile without the inclusion of leading emphasis on producing, by massive desalination programs, the water which is not presently available otherwise from any source within the region.

Otherwise, peace will die of thirst. Lacking water, it will thirst for what remains to be had, blood.

How the Peace Was Lost Since 1993: Projects the Globalizers Would Not Allow

FIGURE 1

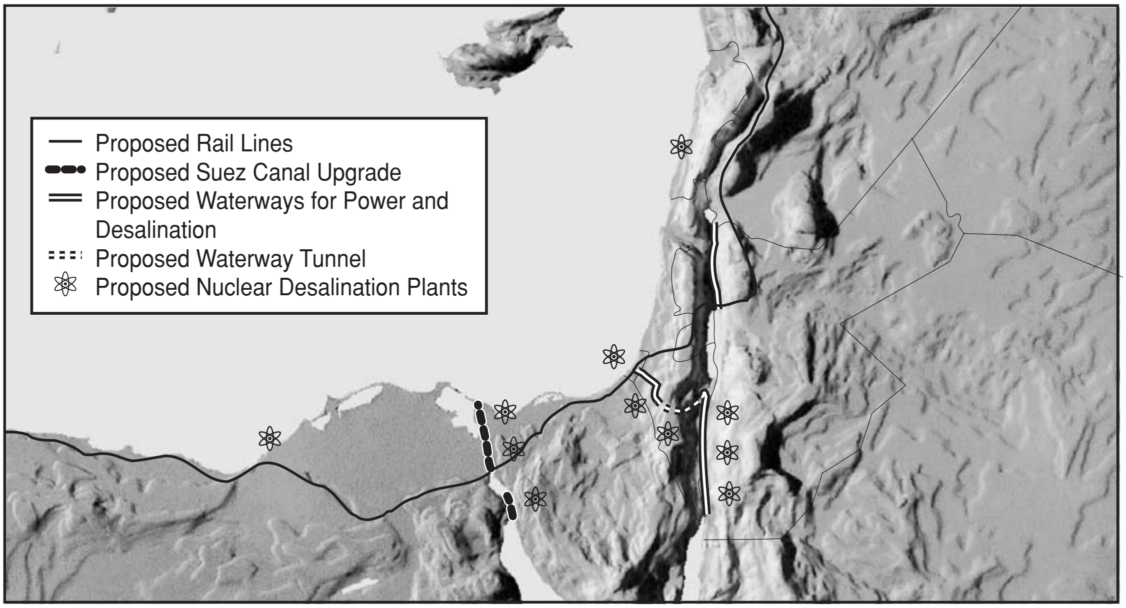
Greater Middle East, Existing and Proposed Rail Development (Arab League)



Selected rail route proposals, shown against existing lines, from the 1970s Arab League's "Guidelines for Railroad Projects in the Middle East," and from 1994 Palestinian Authority and Jordanian proposals. This is the crossroads between Eurasia and Africa.

FIGURE 2

LaRouche's 'Oasis Plan' for Development of Middle East Crossroads



Lyndon LaRouche's "Oasis Plan" for the Mideast features canals linking the Mediterranean with the Dead Sea and/or the Red Sea to Dead Sea to provide freshwater for agriculture, industry, and domestic use. Shown are the general locations for nuclear-powered desalination facilities to provide, in effect, a new Jordan River.

FIGURE 3

Israeli Government-Proposed Projects

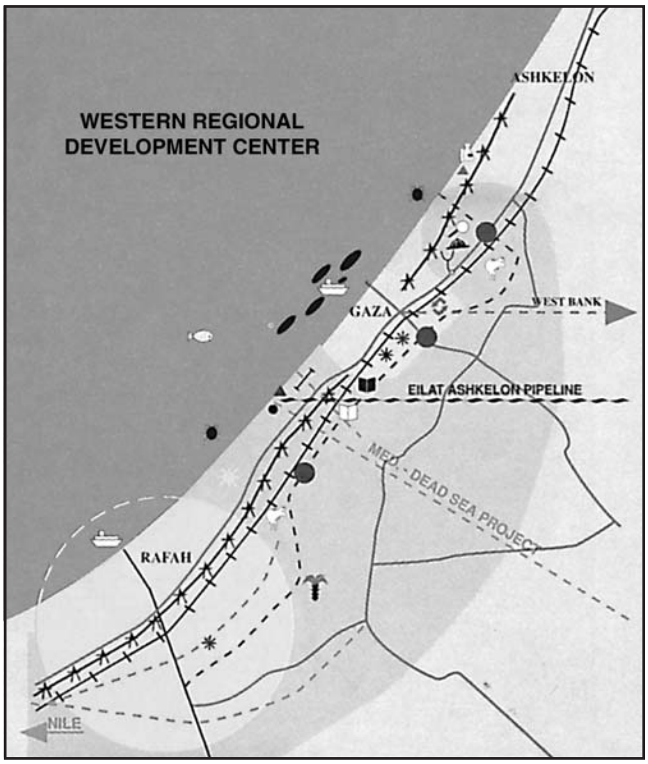
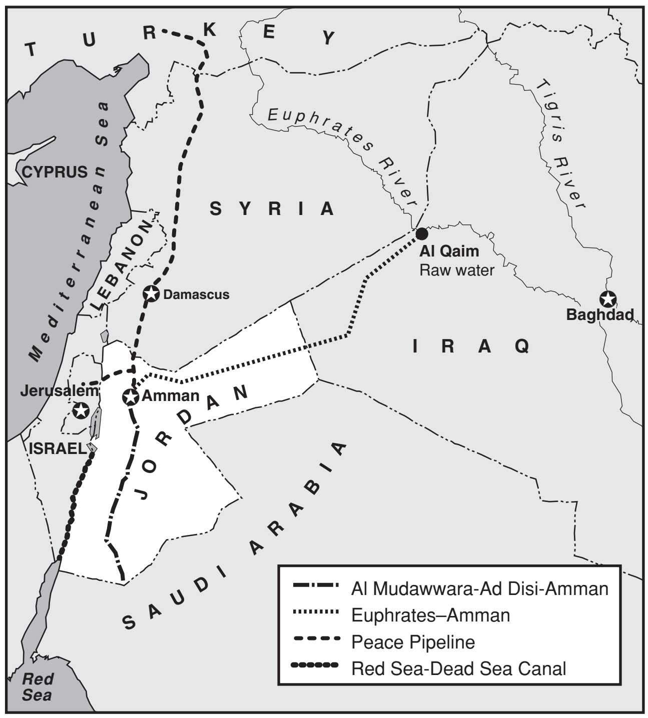


FIGURE 4

Water Projects Proposed by Jordan



Source: *Tomorrow Has Arrived. A Sectoral Analysis*, Jordan Ministry of Planning, 1994.

The greater Gaza development region, as shown in the government of Israel's October 1994 report (left), "Development Options for Regional Cooperation." There are acute infrastructure needs for the 800,000 people in the Gaza Strip. The report calls for 26 new water treatment plants. Map symbols show new ports, a Gaza-West Bank transit link, the Med-Dead Sea project, rail, road, housing, and other infrastructure plans.

Gore, Bush Choose Interchangeable Veeps

by Jeffrey Steinberg

On Jan. 11, 1995, in the immediate aftermath of the so-called "Gingrich Revolution" that gave the Republicans control of the U.S. House and Senate for the first time in nearly 50 years, Sen. Edward Kennedy (D-Mass.) delivered a warning to his fellow Democrats. Speaking at a press conference at the National Press Club in Washington, D.C., Senator Kennedy demanded, "Democrats must be more than warmed-over Republicans. The last thing this country needs is two Republican parties. If we fall for our opponents' tactics . . . or engage in a bidding war to see who can be the most anti-government or the most *laissez-faire,* we will have only ourselves to blame. As Democrats we can win."

Kennedy continued, describing the Democratic Party of Franklin Delano Roosevelt and his late brother John F. Kennedy: "We are, without apology, the party that believes in assisting the poor and the disabled and the disadvantaged—but not to the detriment of the working class, which is justifiably frustrated and angry. They . . . know they are losing ground. They see the wealthiest Americans becoming wealthier. . . . The majority of Americans are working harder and making less."

Kennedy's warnings have now been proven right. With the Democratic Party nominating convention just days away, and with apparent Presidential nominee Al Gore having already named Sen. Joseph Lieberman (D-Conn.), the chairman of the neo-conservative Democratic Leadership Council (DLC), as his running mate, the Democratic Party has completed its "morphing" into just what Senator Kennedy warned against: a second Republican Party, with a platform indistinguishable from that of the GOP, and a Presidential slate with a track record of spitting on the interests of the core constituencies of the Democratic Party of FDR and JFK.

It is no wonder that even the whiff of dissent from within the rank-and-file of the Democratic Party has been met with Gestapo tactics, including the overt use of the Department of Justice and the FBI, to bring the labor movement and key minority leaders into lockstep with "Adolf" Gore's march to the nomination. The theft of Lyndon LaRouche's delegates to the nominating convention, disenfranchising more than 53,000 Arkansas Democrats, who cast their votes for him in the June primary, was perhaps the most egregious police-state move by the Gore/Democratic National Committee apparatus, but it was far from an isolated incident. Thus, Gore goes into the nominating convention, having earned the animus of a growing number of core Democratic voters, without whose enthusiastic support he cannot even come close to winning in November.

What is worse, as LaRouche has recently observed, *both* party leaderships shut down the election process on Super Tuesday, when George W. Bush and Albert Gore purportedly vanquished all their opponents and locked up their party nominations. The life-and-death issues that *ought* to be dominating the policy debate, during a vital Presidential and Congressional election year, have been eliminated from the campaign process—beginning with the looming global financial crash, which is as likely as not to begin here in the United States, with the bursting of the Wall Street bubble.

Instead, both Bush and Gore have engaged in an insulting display of lying to the American electorate, by each claiming responsibility, on behalf of their parties, for the so-called American economic boom, which, in reality, has temporarily fattened the pockets of the upper 10-20% of the population and severely driven down the real living conditions for the vast majority.

Cheney and Lieberman

Nothing symbolized the "morphing" of the two major parties more than the selections of Dick Cheney and Joe Lieberman as the Vice Presidential running mates of Bush and Gore, respectively.

After a long career as a Washington insider politician, first as an underling of Donald Rumsfeld in the Nixon and then the Ford White House, next as a six-term Congressman, and finally as George Bush's Secretary of Defense, Cheney moved into the oil business, as the president and chief executive officer of the Halliburton Corp. The fact that Cheney was Defense Secretary during Operation Desert Storm sat well with the wealthy oil sheiks of the Persian Gulf, and Halliburton, plying on Cheney's name, emerged suddenly as the dominant firm in the oil service industry, selling diagnostic, drilling, and refining equipment all over the world. In return for these door-opening services, Cheney received an annual salary of $1.3 million, and amassed an estimated $9.8 million in Halliburton stock.

The *Wall Street Journal* and Reuters have described Bush-Cheney as the oil industry's "dream team." Others see the Cheney nomination as the final certification, that a George W. Bush administration would be a re-tread, in almost every respect, of the 1989-93 George H.W. Bush Presidency. If you liked "Desert Storm," the Panama invasion, the "new world order," and economic policies "made on Wall Street," then the Bush Crown Prince is for you. But, as lyndon LaRouche observed, "The Presidency is not supposed to be a hereditary office."

The Republicans' 'Favorite Democrat'

Unfortunately, the "alternative" offered by the Democratic Party, with the selection of Joe Lieberman, is no alternative at all.

Lieberman has been described by arch-conservative Sen. Sam Brownback (R-Kan.) as the Republicans "favorite Democrat," whose voting record is to the right of many GOP members of Congress. Brownback wrote a tribute to Lieberman in the Aug. 9 *New York Times* headlined "Lieberman, My Ally," in which he recounted his collaboration with the Connecticut Democrat and Sen. Dan Coats (R-Ind.) on a school vouchers bill for the District of Columbia, and their work to overthrow the Sudanese government. "On many issues, including Social Security reform, missile defense, and tort reform," Brownback wrote, "Senator Lieberman has followed his conscience across party lines."

Indeed, up and down the line, Senator Lieberman has lined up four-square with the policies of the Bush Republican gang, which in most instances, is also the policy of Gore. The differences between Bush-Cheney and Gore-Lieberman are all style and no content.

Since entering the U.S. Senate in 1988, Lieberman has been one of the architects of the wrecking of the "FDR Coalition" that was the hallmark of the Democratic Party from 1932. Not only does Lieberman chair the Democratic Leadership Council, since 1995, but also, in 1996, he and Sen. John Breaux (D-La.) launched the New Democrat movement, which aimed at transforming the Democratic Party into a party of big business, free trade, and a "tough-on-crime agenda," including broad use of the death penalty, which has targetted African-Americans and other minorities.

New York Times political columnist David Broder captured the picture, when he described Lieberman as "an embodiment and an apostle of a Democratic philosophy that incorporates market-oriented thinking of the Reagan revolution and a muscular defense and foreign policy." Indeed, Lieberman likes to boast that he broke the Jewish Sabbath restrictions against working on Saturday, to cast his vote for the Gulf War Resolution, which he personally co-authored, on behalf of President Bush and Cheney.

While the establishment media were singing Lieberman's praise as a deeply religious man of impeccable morality, they had to admit, paradoxically, that he is the leading recipient of campaign funding from the insurance industry and health maintenance organizations, and is among the biggest cash recipients from the pharmaceutical industry. This is hardly a mark of "morality," at a moment when poor people and senior citizens are being literally murdered by the takedown of quality, affordable health care, by Lieberman's money-backers—with his complicity.

Most of all, the selection of Lieberman as Gore's running mate, barring some disastrous blunder by George W. Bush, almost ensures that the Republicans will be occupying the White House in January 2001. This reality has not sailed over the head of Lieberman—who is still pursuing his re-election to a third U.S. Senate term, even as he campaigns for Vice President.

Europe Waging War vs. U.S. Death Penalty

by Marianna Wertz

The European Union (EU) is waging an unprecedented, almost full-time political war against the death penalty in the United States, a war that has intensified with France's assumption of the rotating EU presidency in June, and with the fact that both major-party U.S. Presidential candidates are avid supporters of capital punishment. In a recent statement, the EU called on all U.S. Presidential candidates to endorse a moratorium on the death penalty and support the universal abolition of capital punishment.

The EU, which maintains a fully staffed office in Washington, D.C., is the treaty-based institutional framework that defines and manages economic and political cooperation among its 15 European member-countries. In 1983, the EU abolished the death penalty for its member-countries, and required abolition as a precondition for new members to join the association.

France's presidency of the EU coincides with an aggressive policy by leading French officials, in opposition to Anglo-American "human rights" policy abroad (see "French Foul Up Albright's 'Democratic' Fascist Scheme," *EIR,* July 7, 2000). With their offensive against the death penalty in America, the French and their EU allies are now extending that opposition into questions of "human rights" in the United States.

On the EU's American website (www.eurunion.org) is prominently listed "Action on U.S. Death Row Cases." The associated statement explains: "The EU is deeply concerned about the increasing number of executions in the United States of America, all the more since the great majority of executions since reinstatement of the death penalty in 1976 have been carried out in the 1990s. Furthermore, in the U.S., young offenders who are under 18 years of age at the time of the commission of the crime may be sentenced to death and executed, in clear infringement of internationally recognized human rights norms."

Executing the Mentally Retarded

In addition to executing minors, the United States also stands out as the only "civilized" nation that executes the mentally retarded. The latest démarche from the EU, dated Aug. 8 and issued from the Embassy of France, called on Texas Gov. George W. Bush, the Republican Presidential candidate, to commute the sentence of Oliver David Cruz, 33, who was mentally retarded, with an IQ that has tested as low as 64. Despite this and many other such pleas for clemency, Cruz was executed on Aug. 9 for the rape and murder of a Texas woman. While Cruz didn't deny his guilt, the EU urged Bush to commute his sentence to one compatible with international law, citing the United Nations Economic and Social Council Resolution 19, on the implementation of the safeguards guaranteeing protection of the rights of the mentally retarded with respect to the death penalty.

Thirteen American states prohibit execution of the mentally retarded, but Texas is not among them. In fact, this is so, largely because Governor Bush did not support such legislation when it was introduced in the Texas legislature in last year's session; it failed to pass there.

A strongly worded *New York Times* editorial on Aug. 8 noted that to execute the mentally retarded "demeans the nation's judicial system," offending "the most basic standards of justice. This is partly because the mentally retarded, though perhaps capable of distinguishing between right and wrong sufficiently to stand trial, cannot be said to be among the most morally culpable criminals, deserving the ultimate penalty." It noted that Bush "should be embarrassed by the callous execution of the mentally impaired on his watch."

Calls for Federal Moratorium

Less than two weeks earlier, on July 27, the French Embassy issued a démarche on behalf of Juan Raúl Garza, a Texas farmworker originally scheduled to die in September for three murders in connection with drug-trafficking. His would be the first Federal execution in 37 years. The EU urged President Clinton to commute Garza's sentence to life in prison, not to break the de facto moratorium on the Federal death penalty, and to consider imposing an immediate moratorium on Federal executions as a first step toward the general abolition of the death penalty in the United States.

"Your administration is well aware of the European Union's commitment to the abolition of the death penalty, which is regularly evoked in our relations with the State Department," says the démarche to Clinton. "The case of Juan Raúl Garza, already the subject of a European Parliament resolution passed on April 13, elicits great emotion and sustained interest in our countries because of its symbolic import."

The EU notes that the Inter-American Commission on Human Rights, on Jan. 27, 2000, urged that the Garza execution not proceed before the commission has a chance to examine and rule on the case.

The démarche also states that the EU countries "have been campaigning, and continue to campaign, for the governors of the other 37 states concerned to establish an immediate moratorium on executions," and expresses the EU's support for legislation pending in the U.S. Congress that would impose a Federal moratorium.

On Aug. 2, President Clinton delayed Garza's execution by at least four months, giving his attorneys more time to argue for clemency under new Federal clemency guidelines. Garza is appealing the death sentence, claiming that the Federal system is rife with racial disparities; 17 of the 21 people on Federal death row are from minorities. The delay is also convenient for Al Gore's Presidential campaign, as Vice President Gore, who voted in favor of extending the Federal death penalty to drug kingpins, would be held co-responsible for the execution of an Hispanic, and for breaking the Federal moratorium.

Targetting America's Chief Executioner

A major focus of the EU's attack is Governor Bush, who is leading in the polls for the U.S. Presidency today, and is the nation's chief executioner. In a July 6 resolution on the death penalty in the United States, the European Parliament expressed its "dismay" at the June 22 execution in Texas of Gary Graham (see "Mass Murderer G.W. Bush Executes Gary Graham," *EIR,* June 30, 2000), and noted "with dismay that there have been 131 executions in Texas during the past five years" while Bush has been Governor. With the Cruz execution on Aug. 9, and the execution of Brian Keith Roberson, 36, that same day in Texas, Bush's killings stand at 140 as of Aug. 10, with four more to go this month, far and away an all-time record for an American governor.

The resolution also reiterates "its serious concern about the sad record which the State of Texas has built up ever since the U.S.A. reinstated the death penalty in 1976, and since when Texas has executed seven more juvenile offenders, more than any other American state." With the two Aug. 9 executions, Texas has executed 227 men and women since 1976. By comparison, the next highest state, Virginia—whose Gov. James Gilmore is being eyed for the post of Attorney General in a Bush Administration—has executed 77 since 1976, while most states remain below 20 total executions.

Stopping the Barnabei Execution

EU member Italy has been spearheading a European offensive on behalf of the life of Virginia inmate Derek Rocco Barnabei, 33, an Italian-American (see "Italians Look to Bretton Woods," *EIR,* Aug. 11). Italy's Parliament voted unanimously in July to support a plea by Pope John Paul II to spare the life of Barnabei, scheduled for execution on Sept. 14 for the rape and murder of his girlfriend. Barnabei contends he is innocent and has asked Governor Gilmore to order new DNA testing in order to prove it. To date, Gilmore has not acted on the request.

On July 6, the European Parliament passed a resolution calling for a halt to Barnabei's execution as well. It noted that investigations in Barnabei's case failed to furnish clear evidence of his guilt, while his defense was "flawed and insufficient." The resolution urges that judicial authorities responsible in the case grant Barnabei a retrial, "since the interests of justice will best be served by seeking out the truth and making sure that innocent men are not convicted."

'Politics of Personal Destruction' Began in Bush's '92 Campaign

by Edward Spannaus

It is more than a little ironic to hear George W. Bush and his campaign team decrying the Clinton scandals of the past eight years, or to hear Bush the Younger declare that "I want to change the tone of Washington to civility and respect."

The scandals of the last eight years were *all* an outgrowth of Bush the Elder's 1992 campaign.

In fact, it goes back even before 1992. Scarcely had George Bush taken office in 1989, when he deployed Lee Atwater, who headed Bush's Opposition Research in the 1988 campaign (remember the Willie Horton ads?), to Little Rock to dig up dirt on Bill Clinton. Atwater had a staff of 35 during the '88 campaign, which had grown to 40 by 1989, and continued to be housed at the Republican National Committee.

Bush was looking ahead, and he had determined that Clinton would be a formidable opponent in the 1992 Presidential election, so Bush wanted to ensure Clinton's defeat in the 1990 gubernatorial race in Arkansas. Atwater said that he would work with local Republicans "to throw everything we can at Clinton—drugs, women, whatever works."

The same nest of Clinton's enemies with which Atwater made contact in 1989, later become the key informants for Bush's 1992 campaign, as well as for the lazy vultures of the news media who fed on stories handed to them by the Bush campaign and other anti-Clinton operatives in Arkansas.

An unnamed Republican opposition researcher told *U.S. News & World Report* in 1992: "If you get 70% of the work done, that's about enough for reporters to follow up. If you give them 30%, most won't do the story."

In the book *The Hunting of the President,* by Joe Conason and Gene Lyons, it is recounted how a Bush aide whom Clinton knew, urged Clinton not to run for President in 1992, and not to try and deprive Bush of a second term. "We think you're the only one who can beat him," the Bush aide told Clinton. "And if you run this time, you'll never be able to run for anything again."

And of course Clinton was hit with numerous scandalous allegations. Most widely publicized were the "bimbo eruptions," as they came to be known, the most prominent of which was Gennifer Flowers's totally unsubstantiated story of a 12-year affair with Governor Clinton—which, among other things, included stories about trysts at a famous Little Rock hotel, two years before the hotel was even built.

Sex and Whitewater

As an article in the March 5, 1999 *EIR* showed, both the Whitewater and the sex scandals aimed at Clinton, came out of the Bush campaign.

In early September 1992, a politically motivated and baseless "referral" was made from the Resolution Trust Corp. to the Justice Department, alleging criminal wrongdoing in the Madison Guarantee Savings and Loan case by Bill and Hillary Clinton. Both Bush's Attorney General William Barr and Bush's White House Counsel C. Boyden Gray intervened to try and get a criminal investigation of the Clintons opened before the election. They didn't succeed at the time, but by January 1994, after Clinton was in office, an independent counsel was appointed.

The second avenue of Bush campaign opposition research and dirty tricks, revolved around investigations of Bill Clinton's personal life. Chicago businessman Peter W. Smith (a major bankroller of Newt Gingrich's GOPAC) began financing an investigation into Clinton's sex life during the 1992 campaign, and put at least $80,000 into these efforts up through March 1994. Much of the research was conducted and supervised by attorney Richard W. Porter, who was Special Assistant to the President (Bush) in 1990-91, then Counsellor to the Vice-President (Quayle) during 1992, and who then became a partner in Kenneth Starr's law firm, Kirkland and Ellis. In the summer of 1994, Starr and Porter worked together on preparing an *amicus curiae* brief to support Paula Jones's argument against Bill Clinton.

Later, Porter was to become one of the "elves"—the network of Federalist Society-linked young lawyers who operated behind the scenes to create secret channels of communication between Paula Jones's lawyers, Independent Counsel Starr's office, and reporters who were digging around the emerging Monica Lewinsky story.

Opposition research by the Bush-Quayle campaign delved into other areas as well, such as trying to prove that Bill Clinton had been a Soviet agent ever since his visit to Moscow in 1969. Some pro-Bush State Department employees rifled though Clinton's passport files, looking for any derogatory information, or, even better, evidence of treason. (This resulted in the appointment of an independent counsel to probe the passport inquiries.)

After the elections, Smith renewed his project from the 1992 campaign, getting David Brock of the Richard Mellon Scaife-bankrolled *American Spectator* to come to Little Rock to meet with two renegade Arkansas state troopers. This led to the infamous "Troopergate" article in the *American Spectator* in late December 1993, that led to the Paula Jones civil suit, and that suit eventually gave Starr the "perjury" and "obstruction of justice" hook to launch the Lewinsky investigation.

So, if George W. Bush wants to clean up the mess in Washington, he could start by 'fessing up about his father's responsibility for all this scandal-mongering.

National News

Is Virginia Oligarchy Funding Nader for Bush?

Sources in Virginia's "Hunt Country" in Loudoun County, well connected in GOP circles, report that the word has come down from networks associated with George W. Bush to open the funding spigots for Ralph Nader's Green Party Presidential campaign. The sources report that large sums of money from wealthy Hunt Country families are to be laundered through the lists of supporters of various environmental and "anti-sprawl" outfits to Nader. One source reported that the Bush "Lords of Loudoun" networks had been chosen for this operation, since "they are already up to their eyeballs in environmental and similar causes. It will look perfectly okay."

This source said that he was aware from "high circles" in the GOP, that key party people, as well as Bush's most direct controllers, know about the operation. The idea is that if Nader can stay in the race through November as a "credible," but minor, candidate, he will significantly offset the impact of a possible Reform Party run by Pat Buchanan, which "the Bush people are trying to scuttle."

These sources also report that the same Hunt Country families are also funding the network of protest groups that intend to demonstrate—possibly violently—at the Los Angeles Democratic Convention. Protests at the GOP convention were reportedly run by these same networks, some of which were trained in the Middleburg, Virginia area, and who participated in the violent demonstrations in Seattle last year against the meeting of the World Trade Organization.

Farrakhan: LaRouche Was Targetted for His Ideas

Minister Louis Farrakhan, National Representative of the Nation of Islam, held a press briefing in Houston on Aug. 5, at the end of a "community leadership meeting," at which some 200 Houston community leaders were present. Responding to a question from *EIR*'s Brian Lantz, regarding the U.S. Supreme Court's shredding of the 1965 Voting Rights Act in the case of Lyndon H. LaRouche, Jr., Minister Farrakhan replied:

"The Voting Rights Act bill, which was passed in 1965, which gave us the right to vote, comes up for review in a few years. . . . Mr. LaRouche, what he suffers, is because of his ideas. In Washington, D.C., the people there voted for Marion Barry, after his fall from grace. Once he was re-elected as mayor, they started to strip him of his powers, of his office, *nullifying the vote* of the people.

"You really look at it, your vote really doesn't mean that much anyway. This is not a true democracy. This is game playing. This is deception. This is fraud practiced on the American people; not just on Lyndon LaRouche, but on the American people. And the only way that this fraud can be exposed and manifested, is that there must be a *people movement* in America to take back the power that was mandated to them by the Constitution of the United States. No individual will be able to do it! It must be an individual or individuals backed by the mass movement of the dissatisfied elements of the American electorate. That's why the Million Family March, to me, is important, is because those issues of which you speak are the same issues that we have. And if we join these issues, then perhaps we can make an impact."

Dick Morris Expounds on GOP 'Triangulation'

"Dirty Dick" Morris, writing in the *New York Post* on Aug. 4, says that the Republicans have just completed their most successful convention since 1988, laying out an agenda of issues normally deemed "Democratic." Morris calls this a victory for his strategy of political "triangulation," in which all matters of principle are thrown to the winds in favor of opportunism.

Morris, who was chief campaign adviser to Bill Clinton during the 1996 election, foisted the "triangulation" policy onto Clinton, with devastating results for the nation, and for the President himself. Morris resigned his post on Aug. 29, 1996, just after the Democratic Convention, when his perverse toe-sucking affair with a high-priced prostitute was brought into the public eye. Morris is the cousin and protégé of the late Roy Cohn, the lawyer and dirty-trickster for Sen. Joe McCarthy.

"With the traditional GOP issues of welfare, crime, the deficit, taxes, and Communism largely exhausted," Morris writes in the *Post,* "the Republican Party has begun the mammoth task of transplanting itself into the new turf of education reform, Social Security preservation, Medicare stabilization, and health-care expansion.

"At times, viewers must have wondered if their TVs were malfunctioning and broadcasting the Democratic convention instead of the Republican conclave. Such is the way of triangulation."

Gore is going to have a rough time challenging the Republicans without going too negative and without turning off swing voters, Morris warns. His first mission "is to escape Bill Clinton's gravitational pull" and go off on his own.

Pentagon Disputes GOP on Military Readiness

At the Pentagon briefing on Aug. 3, a reporter asked about statements made by several speakers at the Republican National Convention, who were quoting from Gen. Norman Schwarzkopf (ret.), saying the U.S. military today is much smaller and less prepared than it was ten years ago.

Pentagon spokesman Ken Bacon acknowledged that the military is smaller, and pointed out that this shrinkage started in 1989—at the beginning of the Bush Administration. Bacon said that these reductions in size of the military and military spending, bottomed out in the last couple of years and budgets have started to increase, beginning around 1996-97. "The most significant increase in spending occurred as a result of meetings that President Clinton had with the Joint Chiefs in 1998, in September," Bacon said. "It was those meetings that led to a $112 billion-plus up in military spending that was proposed in January of 1999, January or

February of '99, for the fiscal 2000 budget, and that has gone into effect, and what you see now is an improvement in spending and other trends."

When asked about GOP Vice Presidential candidate Dick Cheney's statement that morale in the military is at an all-time low, Bacon said that one very tangible measurement of morale is retention, and that rates of retention are rising.

Smart Business: Blair Burkes Gore

Lyndon H. LaRouche, Jr., in a comment on Aug. 2, noted that London sources have told the British press that Prime Minister Tony Blair has ordered his team to break off close working relations with Blair's own former crony, Vice-President Al Gore, and prepare to give a "conquering hero" reception in London for Republican Presidential candidate George W. Bush.

"In effect," said LaRouche, "Blair, the reincarnated Burke of the celebrated Burke-Hare team, has dumped his long-standing partner in resurrections, saying: 'When a loving chum turns up dead meat, any smart businessman does what he has to do.' "

Burke and Hare were a 19th-century team of Irish entrepreneurs who smothered their victims in order to sell their bodies to the medical profession for dissection.

Administration To Cut Medicare Drug Payments

The Clinton Administration is planning to cut payments for anti-cancer drugs, administered to patients in doctors' offices, in order to "save money" for Medicare, the *New York Times* reported on Aug. 6. Hundreds of thousands of elderly patients, who receive chemotherapy and other treatment in their doctors' offices, will be most immediately affected.

The rationale for this action, according to Health and Human Services Secretary Donna Shalala, is that Medicare is paying too much for the drugs, more than the doctors themselves pay, and that these "excessive Medicare payments" must be reduced, possibly as early as Oct. 1. Doctors respond that while they receive more from Medicare than they pay for some of the drugs, the extra payments are necessary to cover chemotherapy costs not reimbursed by Medicare.

An estimated 750,000 Medicare beneficiaries receive chemotherapy in doctors' offices annually, according to Dr. Joseph S. Bailes, former president of the American Society of Clinical Oncology. Most of these patients suffer from breast, colon, or lung cancer.

The announced decision has provoked an angry response from patients, doctors, nurses, and members of Congress. One hundred and twenty members of Congress have written to Shalala to protest the action. Chris Jennings, White House health policy coordinator, defended the move, saying that doctors are upset because they'll be losing substantial amounts of income. "Patients should not be hurt in any way, but taxpayers should get a fair deal," he argued. At least half of all patients receiving chemotherapy in the United States are on Medicare. It is quite likely that, following the government's lead, private insurers will lower their reimbursement rates as well.

Prison Population Tops 2 Million

The number of people held in U.S. prisons, jails, and other correctional facilities surpassed 2 million at the end of 1999, according to a report released by the U.S. Bureau of Justice Statistics on Aug. 9. The U.S. prison and jail population, long the world's largest, and the second highest per capita in the world (after Russia), added nearly 74,000 inmates in 1999.

In addition to inmates in prisons and jails, there were about 106,000 juveniles held in secure facilities, 18,000 in territorial prisons, nearly 7,700 in immigration facilities, nearly 2,300 in military facilities, and 1,600 in American Indian jails. The total incarcerated population has swelled by 77% since 1990, an increase of nearly 600,000 inmates, the report found.

Briefly

JOE ANDREW, the chairman of the Democratic National Committee, who excluded elected delegates pledged to Presidential candidate Lyndon LaRouche, Jr. from the Democratic Party Convention, displayed the unbelievable hypocrisy on Aug. 2 of criticizing the Republicans for excluding primary candidates from the stage at their convention. "They don't want those people on the stage," said Andrew. "The tradition, certainly, in both parties, has been that if you run for President, you speak from the podium. We certainly look forward to having Bill Bradley speak at our convention."

CONDOLEEZZA RICE, foreign policy adviser to George W. Bush, said in an Aug. 2 interview to MSNBC that President Clinton was wrong to have classifed AIDS in Africa as a national security matter. It is "a health problem," she said, and she does not intend to deal with it as part of her foreign and national security policy advice to Bush.

MORE THAN 934,000 elderly Medicare beneficiaries will be dropped by health maintenance organizations (HMOs) next year, the Clinton Administration reported. This is almost a third greater than the 711,000 cuts which the HMOs had projected in June.

THE STATES cannot account for people eliminated from the welfare rolls, according to a General Accounting Office report. More than 2 million families have left the state welfare rolls because of the 1996 welfare reform act. Of the families still on the rolls, most of the parents are working.

PENNSYLVANIA'S largest teachers union filed a lawsuit on July 31, asking that the law allowing state takeovers of school districts be declared unconstitutional. The law sets a three-year deadline for nine districts, including Philadelphia's, to improve standardized test scores or be taken over by the state.

Editorial

Buying Electricity from Bush

The joke goes, that if you pay electric bills, you might as well vote for George W. Bush for President, because you're already making big contributions to his campaign.

It's not just that a gang of energy-speculation conglomerates have been buying up the nation's power plants under the "electricity deregulation" policy; and that the circles of former President Sir George Bush, James Baker, et al., control the dominant conglomerates in the swindle.

Nor that the most important of these Bush "electricity robber barons," the Houston-based international conglomerate Enron Corp., is the biggest contributor of money ($550,000) to George W. Bush's entire political career.

Nor that Enron itself, in many states, turned legislators' heads to enact deregulation, then led the buy-up of capacity and the "gaming" of wholesale electricity prices up by 10 times, 100 times, 1000 times . . .

This whole swindle is dissected in detail in the articles contained in *EIR*'s *Feature* this week; we warned you in 1995, when electricity deregulation started its march through the states, that it would repeal 60 years' history of cheap and reliable power; we are now entering the "Third World" domain of regular brownouts, blackouts, shutdowns, and hyperinflation in the cost of electricity and natural gas.

But the real joke is, that the energy deregulation policy itself was launched by Jimmy Carter and his fanatical Energy Secretary, James R. Schlesinger, and thus it is the political inheritance of Carter think-alike, Al Gore. So, if you've been foolish enough to back the unelectable Gore, you're handing the White House to Bush the Younger and the economy to the global financial speculators around Bush the Elder.

Recall how Carter and Schlesinger exhorted us to turn our lights out, cut our thermostats down—"freeze in the dark," as Lyndon LaRouche and this news service summed up their energy policy then. They wanted to deregulate the nation's energy supply; they insisted that the nation's reliable electric utilities had to open their grids to "competition," and let fly-by-night companies sell solar power, windmill power, etc.

How pathetic, then, to hear President Clinton recently—responding to protests against power cuts, blackouts, and sudden doubling of electric bills in deregulated California—calling on the residents of that state to cut their lights, fans, air conditioners. "Sweltering in the dark," with "freezing in the dark" to come this Winter.

Equally pathetic are the Commerce Department's month-after-month statistics, trying to elect Gore by announcing that inflation is under control, when hyperinflation is in fact beginning to hit.

What Enron and the other speculative conglomerates are doing to electric power plants, is exactly what has been done to hospitals during the 1990s, by the likes of Dubya Bush's financial angel and business partner, Richard Rainwater, and his Columbia/HCA conglomerate: buy 'em up; shut 'em down to reduce supply; then jack up the prices to whatever the desperate market will bear. Columbia/HCA was finally broken up after being caught stealing billions from the Federal government through Medicare fraud. But the United States has lost 15% of its hospital beds during the 1990s, as it is now losing its reliable electric power supply, to the financial predators of the "Bush league."

The poison of deregulation, in every industry into which it has been introduced, has destroyed the general welfare for which government regulation exists: eliminating needed capacity and reserves, raising prices, leaving reduced, less reliable service, and fostering not competition, but monopolization. Look at trucking; look at the airlines, or our disappearing railroads. Lyndon LaRouche and *EIR* have been fighting deregulation since it first arose, 21 years ago, as a twin of the 20% prime interest rates of Carter's Federal Reserve Chairman, Paul Volcker. We give you here one last, urgent warning, while you still have enough light to read it by.