EIR

Executive Intelligence Review

November 16, 2001 Vol. 28 No. 44 www.larouchepub.com $10.00

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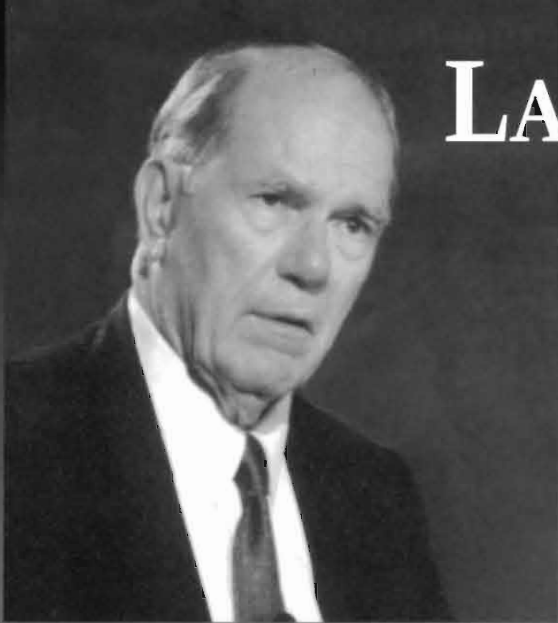
World Leaders Call London 'Terrorist Safe-Haven'
'Mega'-Maniacs Steer Sharon's Mideast War Drive

Berlin Meet: What To Do In A Collapse Of The System



LaRouche for President

'You Have Nothing To Fear As Much As Denial Itself'
Have courage. Stop looking for retribution against those who have proven guilty of no crime. Face up to what you have lacked the courage to face up to now. Then, together, we shall build this nation out of this horrible nightmare.

—**Lyndon H. LaRouche, Jr.,** Sept. 15, 2001

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EIR (ISSN 0273-6314) is published weekly (50 issues) except for the second week of July and the last week of December, by EIR News Service Inc., 317 Pennsylvania Ave., S.E., 3rd Floor, Washington, DC 20003. (202) 544-7010. For subscriptions: (703) 777-9451, or toll-free, 888-EIR-3258.
World Wide Web site: http://www.larouchepub.com
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Japan subscription sales: O.T.O. Research Corporation, Takeuchi Bldg., 1-34-12 Takatanobaba, Shinjuku-Ku, Tokyo 160. Tel: (03) 3208-7821.

Periodicals postage paid at Washington D.C., and at an additional mailing offices.
Domestic subscriptions: 3 months—$125, 6 months—$225, 1 year—$396, Single issue—$10

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

EIR

From the Associate Editor

Last March, a distinguished international group of economists addressed an *EIR* seminar in Berlin, joining Lyndon H. LaRouche at the podium to call for a New Bretton Woods financial reorganization, to replace the current hopelessly bankrupt system. They returned to that city on Nov. 5, for a conference on "What Can Be Done In The Face Of A Financial Meltdown?"

In the intervening eight months, over 2 million workers have lost their jobs in the United States and Western Europe alone, as *EIR*'s Lothar Komp detailed for the audience.

The ritualized interest-rate cuts by Alan Greenspan's Federal Reserve, the corporate bailouts, the fiscal belt-tightening, the stimulus packages—none of this has helped, and it cannot help. The Depression is here—and it had nothing to do with the events of Sept. 11.

The solution is clear now, just as it was last March. As LaRouche emphasizes in his keynote speech on Nov. 5, "The problem is *not* a problem of how to *fix* the present system, but how to *replace* it." See our *Feature* for his full speech, and the presentations of economists Lothar Komp (Germany), Prof. Dr. William Hankel (Germany), Dr. Tatyana Koryagina (Russia), and Dr. Nino Galloni (Italy). Other speeches will be published soon.

Elsewhere in this issue, we provide exclusive reports on who is pushing the "clash of civilizations" policy which was intended by whoever actually masterminded the Sept. 11 terror attacks. We document Britain's role in providing a safe-haven for terrorists; the active support for the Taliban of Henry Kissinger and others of his Anglo-American policy clique, up until the very recent period—the very people who are now leading the charge for a war against Islam; and the provocations of Edgar Bronfman and the Mega Group of billionaires who are behind the war drive of Israel's Ariel Sharon. In *International,* see our fascinating discussion with journalist Kurt Lohbeck, a friend of murdered anti-Taliban Afghani rebel leader Abdul Haq. Lohbeck sums up the U.S. policy failure that betrayed Haq: "So now we're stuck with the fanatics. We made them, we bought them, we paid for them, we supported them; now we have fanatics, and we are ignoring the patriots. How stupid can we be?"

Susan Welsh

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Cover This Week

Lyndon H. LaRouche, Jr. addresses EIR*'s seminar in Berlin, on Nov. 5.*

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www.larouchepub.com Volume 28, Number 44, November 16, 2001

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Global Lending Shuts Down; Banking Media Blame Sept. 11

by Kathy Wolfe

"The flow of private capital from the U.S., Japan, and Europe to developing nations has effectively been suspended since Sept. 11," *Nihon Keizai News,* Tokyo's top financial paper, reported on Oct. 29. The editorial called it "the biggest disruption of capital flows since September 1998," when Russian bonds and the giant Long Term Capital Management hedge fund crashed, nearly melting down world markets. "What is particularly worrisome is the lack of visible support," Nikkei adds, from New York and Washington. In 1998, the Treasury, Federal Reserve, and Wall Street mobilized world finance ministers and central banks, they say—but not today.

In fact, there is a credit crunch for borrowers around the globe, the latest stage of the collapse of the International Monetary Fund (IMF) system. This crunch is also hitting the United States and Europe, with all but top-rated corporations being refused capital, Robert Samuelson reported in the Oct. 31 *Wall Street Journal*.

Pundits in the financial press blame the Sept. 11 attacks for shutting down world trade, slashing the income of Asian and other Third World exporters, and Western companies alike, and "red-lining" them from lending or investment. The actual story, however, is different.

The worldwide credit crunch is real, and deadly, *but it is not new—and it's a fraud to blame Arab terrorists*. Here, the real terrorists are the Wall Street and London banks, which were closing off credit well before Sept. 11, and are now using the attacks as their excuse. The Institute for International Finance (IIF), cartel of the world's top banks, issued a "policy letter" on Sept. 20, warning that they have halted Third World lending, which "is at its most sobering level since the difficult years of the debt crises in the 1980s," when $250 billion in loans to Argentina, Brazil, and Mexico went bust.

The letter, backed by a statistical report, announces that there will be a *net drain of $22 billion in credit outflow from the Less Developed Countries (LDCs) to the international banks and financial markets, during 2001*. It blames Sept. 11, saying the attack "significantly increased risk aversion and reduced investor appetite for emerging market assets."

Malice Aforethought

But when questioned, IIF officials admit that Anglo-American banks began slashing LDC credits much earlier. "It was our policy decision," an IIF official said on Nov. 1. "We projected a major lending decline for 2001, when we did our statistics in August. We rechecked the numbers on Sept. 17, but our projections from before Sept. 11 were on target." And now? "During October, the decline has continued pretty much as we predicted."

The IIF, also known as the "Ditchley creditors cartel," was created at London's Ditchley Foundation in 1982 during the Ibero-American "debt bomb" crisis, by Morgan Bank, Citibank, Hongkong and Shanghai Bank, and other mega-banks, and has largely controlled world lending since.

This announcement by the bank cartel is a backhanded admission of *EIR* Founding Editor Lyndon LaRouche's charge, that leading Anglo-American financiers had a calculated use for the Sept. 11 attacks on the United States. "This monetary and financial crisis has been foreseen," as LaRouche told a Rome seminar on Oct. 16 (*EIR,* Nov. 9, 2001). The Anglo-American banks have run the world like "a special kind of Roman Empire" and their system "is now disintegrating. . . . You have an Anglo-American rentier-financier imperial power, which is threatened with the extinction of *its* system."

Their problem, he said, is that *sovereign nation-states still exist*. In a financial collapse, "the sovereign state must intervene, in collaboration with other sovereign states, to reorganize the financial system to ensure the protection of the general welfare. . . . Thus, the modern nation-state, in this form, is the greatest enemy of the attempt to create a new empire," LaRouche said, and "the enemy is well aware of this." Thus, certain financial circles inside the U.S. would back an attempted coup d'état against the U.S. nation-state, as LaRouche has termed the Sept. 11 attack.

Reverse Blood Transfusion

In fact, under the bank cartel policy, the net drain from the Third World began in early 2001, well before Sept. 11. The Oct. 29 report "International Consolidated Banking Statistics" by the Bank for International Settlements (BIS), gives quarterly figures for 2001 which were obscured by the IIF report. It shows that global bank loans outstanding to LDCs fell from $873.8 billion at the end of 2000, to $855.8 billion in March 2001, and $828.8 at end June 2001—i.e., $45 billion was "repaid" in the first half.

Over 50% of it was sucked from Asia; loans to Asia dropped by $24 billion, from $279 to $255 billion in the first half. "The most notable changes were in Korea, where [local] banks paid back substantial amounts (over $6 billion), and China," the BIS reports, where Chinese banks repaid net over $4 billion. Even starving Indonesia repaid over $3 billion net to foreign banks.

Actually, Asia has suffered a continuous net lending drain since the "Asia Crisis" began in 1997—despite the International Monetary Fund's claim to have "solved" that crisis. BIS figures show that from December 1997 to June 2001, international bank, bond, and money-market credits to Asia have been repaid, net, at a rate of $30 to $90 billion per year, a total *net drain* of over $200 billion (**Figure 1**). The IIF's Sept. 20 "Capital Flows To Emerging Market Economies," which excludes some short-term credit swings, shows a similar pattern of a net $140 billion in credit *out* of Asia in the same period.

The IIF report uses Sept. 11, again, as the excuse for the collapse in the U.S. market for Third World exports, although that collapse was also under way by early 2001. IIF predicts a flat 2% net drop in total LDC exports to the United States in 2001, year-on-year (dollar value), compared with a 22% rise in 2000. They project exports from Asia in 2001 to drop by 5.3%, featuring a 15% drop for South Korea. These estimates, if anything, are too optimistic.

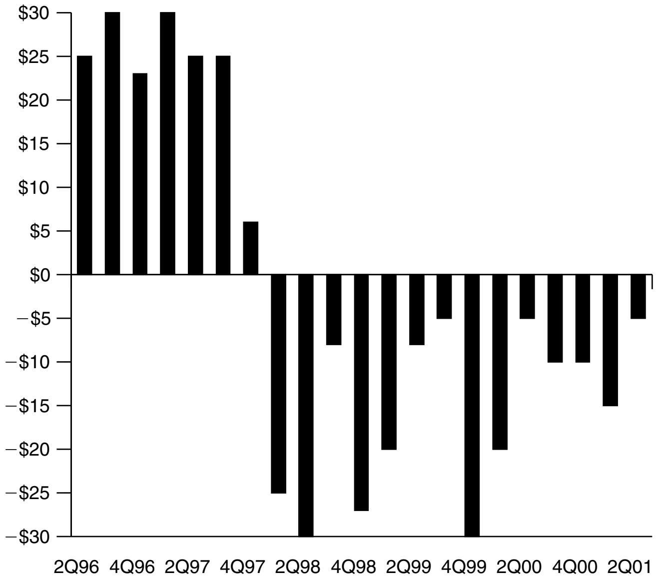
This collapse of exports to the United States is serving as a trigger for "red-lining" the Third World exporting countries from loans, and pulling out investments.

This year, Asia will suffer another net outflow of $21 billion in loans and bond credit, IIF reports. South Korea, Indonesia, Malaysia, Thailand, and the Philippines combined will suffer almost $12 billion of this outflow, most of it during the fourth quarter this year.

FIGURE 1

Bank, Bond, And Money Market Credit To Asian 'Emerging Economies'

(Billions $ Per Quarter)



Source: *BIS Quarterly Review, September 2001*, Sept. 10, 2001.

Worse, many currencies are worth so much less than when the money was originally borrowed, that the true cost to the Asian borrower in his currency may be twice to ten times as high, depending on the country.

This has been the equivalent of a reverse blood transfusion out of the world's most populous area, and the BIS numbers also show where much of it went: to bail out Wall Street. During the 1997-March 2001 period, moving in the opposite direction, like a mirror reflection, as credit left Asia, the huge bubble of credit expansion to Wall Street and the U.S. corporate sector has been a major beneficiary (**Figure 2**).

Bringing the 'Asia Crisis' Home

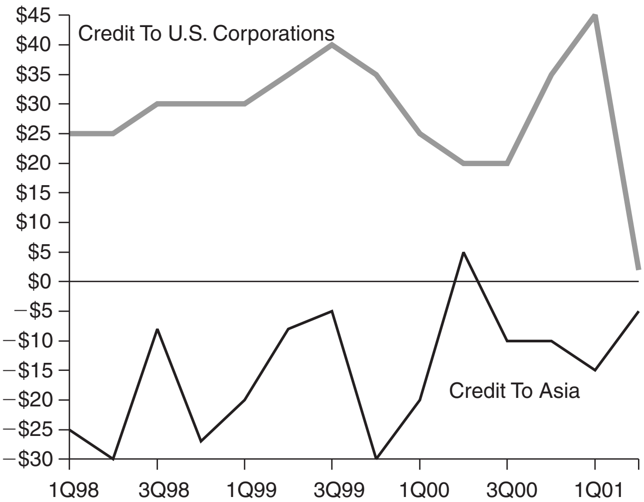
But now it's the American economy's turn to feel the credit freeze. Already during the second quarter of 2001, U.S. and European banks' lending to European corporations dried up. In that quarter, credit outstanding to firms in the five biggest continental European economies fell by about $50 billion, or about 3.5%. The drop in lending to Japanese corporations at the same time was just over 4%. Lending to U.S. corporations dropped sharply in the second quarter, too (again, Figure 2), but did proceed, while mortgages and consumer credit expanded.

Under cover of the smoke from Sept. 11, however, the Anglo-American financiers are now bringing the crisis back

FIGURE 2

Bank Credits To U.S. Private Non-Bank Corporations vs. Bank Credit To Asian 'Emerging Economies'

(Billions $ Per Quarter)



Source: *BIS International Consolidated Banking Statistics, Second Quarter 2001,* Oct. 29, 2001.

home, turning the Great Credit Vacuum Cleaner on the United States itself. Central bank and inter-bank interest rates in New York, London, and Tokyo may now all have been cut virtually to zero; broad money supply may be increasing at unprecedented rates (21% annually in the United States, 12% in Japan at last measure); but banks still *will not lend,* to corporations with collapsed sales and/or volumes of unpayable debt to write off.

This has reached its extreme in Asia, where non-performing loans (NPLs) are now put at over $2 trillion (about 30% of the region's GDP) by the Ernst and Young Asia Pacific Financial Solutions Group report—which adds that even international capital willing to buy these bad loans at pennies on the dollar, is now drying up. But the deadly "inability to lend" has now struck the U.S. economy as well. The nearly $2 trillion in U.S. consumer credit, and the more than $5 trillion in U.S. corporate debt, are now equally unpayable. As Asians have had to repay credit, parts of the U.S. economy will now be asked to do so. *It can't work, but it can be painful.*

The "credit pinch" to the dot-com and related sectors that began earlier this year has intensified since Sept. 11, the *Wall Street Journal* reported on Oct. 29, and now "all but the highest-rated corporate borrowers" are finding the financial spigot cut off. New syndicated bank loans to the U.S. corporate sector are down 56% since Sept. 11, while 2001 has become the slowest year for new companies going public with initial public offerings (IPOs) since 1994. Junk-bond sales are down 60%. Erstwhile blue chip companies such as AT&T have had ratings downgraded by Moody's during October from "Prime-1" to "Prime-2," making it more difficult for them to borrow via bonds and commercial paper. Even the top-rated blue-chips are having to pay higher rates.

In "Revenge of the Credit Cycle," a *Washington Post* op-ed on Oct. 31, commentator Robert Samuelson misses the fact that the entire system is going under, but does report on the credit squeeze's latest effects:

- Banks have toughened approval standards for commercial and industrial loans to businesses.
- Loans to businesses rated "doubtful" or "substandard" are now 15% of all business loans, up from 9% of all such loans last year.
- U.S. companies have defaulted, so far in 2001, on $76 billion worth of bonds, 55% higher than the $49 billion in bond defaults for all of 2000.
- A rising share of cash flow is going to interest payments on all types of corporate debt, reaching 28% this year, compared with 20% in 1996.

Business investment in the United States fell 14.6% in the second quarter (below the second quarter of 2000), and 11.9% in the third quarter, according to the Commerce Department. The decline in trade was even more drastic: Imports of goods and services in the third quarter were 15.2% below one year earlier, and exports 16.6% lower.

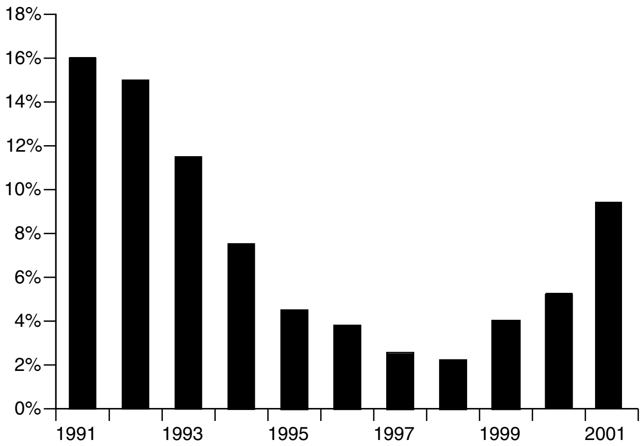
Standard & Poor's Managing Director Diane Vazza told a New York seminar on Nov. 2 that there has been a "record decline in global credit quality in the third quarter" during June-September this year, with 69 corporations having bonds downgraded from investment grade to "speculative." Of those, eight were U.S. companies.

In fact, the Shared National Credit (SNC) review—issued on Oct. 5 by the Fed Board of Governors, Federal Deposit Insurance Corp., and Comptroller of the Currency—reports a "continued deterioration in the quality of syndicated bank loans, consistent with general economic, sectoral, and credit market trends," just based on the results of this year's March to June second quarter. "The seasoning of many aggressively underwritten deals, particularly those credits booked in the latter half of the 1990s, has contributed to the increase in adversely rated credits," the worried regulators report. "Deterioration has been particularly evident for credits to leveraged and speculative-grade borrowers that are facing difficulty generating sufficient cash flow to service their debts in the current environment." This was clearly under way well before Sept. 11.

The SNC program monitors $2.05 trillion in loans as of June 2001, and reports that "classified" (bad) loans, plus "special mention" loans (those nearly bad), were $192.8 billion, 9.4% of the June total (**Figure 3** shows the pattern of the last decade).

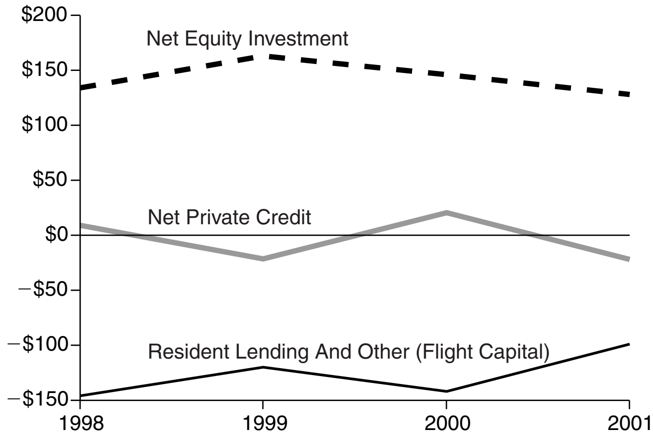
All this, as the Fed is cutting interest rates. If unemployment in the United States jumped by over 700,000 during

FIGURE 3
U.S. Loans Adversely Rated As A Percent Of Total Loans
(Percent)



Source: Institute for International Finance, "Capital Flows To Emerging Markets," Sept. 20, 2001.

FIGURE 4
Emerging Market Economies' External Financing
(Billions $)



Source: Institute for International Finance, "Capital Flows To Emerging Markets," Sept. 20, 2001.

October and the industrial sector has lost 1.3 million jobs since July 2000, consider what comes next.

Privatization vs. The Nation-State

Historically, most international or "cross-border" bank lending has been directly associated with the national sovereignty of the borrower, and known as "sovereign debt." Just as a bank loan in America used to mean a long-term relationship between the local banker and a farmer or other borrower, a bank loan to a country used to assume a long-term relation, such that it was in the bankers' interest that the country prosper over a 10- or 20-year time frame.

But during the 1982-85 Ibero-American "debt bomb" crisis, the IIF "creditors' cartel," at London meetings reported by *EIR* at the time, decided that such long-term relationships were too risky, and too unprofitable, because banks could also get stuck with very large bad loans. Among the many terms they dictated to borrowers, the cartel decreed that bank lending would be replaced by stock and bond buyouts.

As Alan Greenspan, then a partner at the Morgan Stanley investment bank, explained IIF strategy to this writer in a 1984 interview, bank lending would be "securitized." Sovereign nations, he said, would soon be a thing of the past, and sovereign loans thus obsolete. No longer would nations be treated as equal partners with banks via loans which stayed on a bank's balance sheet. From now on, countries desiring international funds would have to sell securities, mostly stock or bonds, to the global markets, giving the buyers *private ownership over some hard asset* such as a state oil company. Further, unlike loans, stocks and bonds are "fungible," easily sold on the open market. This meant banks could charge a country a fee for marketing its stock, then sell the paper and walk away.

"Securitization" deals began in Brazil and other Ibero-American nations with large natural resources in the later 1980s, with banks making what looked like normal loans, but demanding that some sort of "hard-commodity" income stream be written into the loan contract as attachable, such as the revenue from the state electricity company. By the early 1990s, Third World countries generally had to pay much higher interest on loans, than on issuing bonds or stock, such that the "choice" was increasingly being dictated by "the market." Mexico's near-default in 1994, the 1997-99 "Asia Crisis," and the 1998 crash of the Russian debt helped the banks make their argument: We don't like "sovereign loans."

By September 2000, the IIF was able to write a letter to world governments warning that "fundamental changes in the volume and structure of private capital flows to emerging markets" have been made "since the beginning of the 1990s," such that borrowing nations will now need "new approaches to managing market access. . . . [G]reater focus on (stock and bond) underwriting, asset management, and insurance-related products *has reduced the role of traditional balance-sheet lending* by banks. Reflecting the growth in the newer activities, non-interest [i.e., non-loan] income among U.S. banks increased 160% in the past five years, while net interest income [i.e., loan income] rose only 65%. . . .

"Commercial bank lending to emerging market economies is likely to account for less than 8% of private flows for 2001," the IIF was already forecasting *a full year before Sept.*

Argentine Default Brings Collapse A Step Closer

Call it what you will, Argentina has defaulted on its foreign debt. The country was brought to default by a long and painful policy of looting and destroying Argentines' living conditions—supposedly to generate debt payments and avoid default! Argentina's real foreign debt (including domestic debt denominated in dollars, and therefore really foreign debt) is approximately $222 billion, making this the largest sovereign default in history.

President Fernando de la Rúa and his Finance Minister Domingo Cavallo are jabbering about the "voluntary" restructuring they announced in late October, to exchange $95 billion in public debt bonds, bearing interest rates above 20%, for longer-term ones at rates of no more than 7%.

Combined with deeper austerity—Cavallo intends to shut down the entire federal government in December—the duo say they will save $4-5 billion annually on interest payments and thus be able to meet their foreign obligations.

Not a chance. In comments made Nov. 2, U.S. 2004 Presidential pre-candidate Lyndon LaRouche said the real story here, is that Wall Street and the Anglo-American financial vultures are doing the same thing with the Argentine "restructuring" that the U.S. Treasury tried to do the week before, when it announced it would stop issuing 30-year Treasury bonds. It's a desperate ploy to postpone a blowout. "It won't work in Argentina, and it won't work in the United States either," LaRouche warned.

Even former Israeli Central Bank Governor Jacob Frenkel, now the president of Merrill Lynch International, who is advising Argentina on the restructuring plan, admits that while he wouldn't call the scheme compulsory, it really is a deal bondholders don't have the option of refusing. "If you have a tree that only grows fruit at the rate of 5%, the option of 10% is not feasible. So you take the 5% voluntarily," he told London's *Financial Times*.

On Nov. 6, Standard & Poor's called the Argentine debt-swap plan a "selective default." Fitch, Inc. followed suit, calling the plan a "default event," and dropped ratings on Argentine bonds to junk bond status.—*Cynthia R. Rush*

11, 2001. "By contrast, commercial banks provided nearly two-thirds of private flows to these economies in the early 1980s. Emerging market [loan] exposures of U.S. banks, for example, dropped from 12% of assets at end 1982, to about 2.5% by March 2000."

While bank loans ("cash you can use") were being shut off, as described at the outset of this article, the IIF statistics show instead an enormous influx of equity investment ("we buy you") from the banks into the Third World. **Figure 4** shows that equity in the Third World now dwarfs private credit such as bank loans. But note the line marked "Resident lending and other" in Figure 4. This "flight capital" is *an outflow, back into global financial markets, as large as the equity inflow*.

In the latest phase of the financial collapse, even equity sales are drying up, and prices for Third World equity are collapsing. Korea's giant Daewoo Motor Co., which would have sold for $2 billion in 1997, brought under $500 million in a recent sale to General Motors after GM waited three years for the stock to drop. "Many countries don't want to sell their industries at today's low prices," a U.S. Treasury official told *EIR* in late October, "but we say, 'Better to sell it now at 20¢ on the dollar, than later at 10¢ on the dollar,' because the longer they wait, the less they will get."

Even the IMF at a recent internal conference said it would ease up on its standard poison—pressuring nations to privatize all their national assets. The reason? There are no buyers now for these assets.

After Argentina's Default, Who's Next?

by Dennis Small

Nineteen ninety-nine was a turning point in recent developments in foreign financial flows toward Ibero-America. In January-February of that year, Brazil, the largest debtor in the so-called developing sector—with more than $500 billion in real foreign obligations—underwent a major debt crisis, including a maxi-devaluation of its currency, the real.

Bank lending to Ibero-America dried up almost overnight, and has not resumed to date. In its stead, Brazil, Argentina, and Mexico, the region's three major economies, have been driven to issue bonds, but even with that, earlier levels of total foreign financing never returned.

As **Table 1** shows, the bankers' cartel, the Institute of International Finance, expects net private financial flows (1.0) to Ibero-America in 2001 to be only $44.6 billion—less than half the level of 1998—and to drop yet further in 2002 to $42.7 billion. Within this category, loans from private creditors (1.b) have dropped to almost negligible levels, and the only line remaining is that of net direct equity (1.a), often referred to as Foreign Direct Investment, or FDI. In the case of Ibero-America, this consists almost entirely of revenues coming from the privatization of state assets—i.e., not from foreign creation of *new* productive capital in the region, but from fire-sale purchases of *existing* assets. Privatization, by definition, is finite, and will dry up entirely once all the state-owned national assets have been handed over to foreign interests.

Line 2.0 of Table 1 is particularly noteworthy: The bankers' cartel "expects"—i.e., they are demanding—that their pull-out from Ibero-America be covered and financed by $26 billion and $22 billion in "official" flows in 2001 and 2002, respectively. This is the rubric covering International Monetary Fund and Group of Seven governmental bailout packages, which have already been substantial for Argentina, Brazil, and Mexico. There is currently a raging debate in the world financial community as to whether the IMF and G-7 governments will step in, yet again, to bail out Argentina—or rather, to bail out its creditors.

However, these overall Ibero-American numbers actually mask an important distinction within the region: Argentina is currently undergoing a dramatic withdrawal of foreign financial assets, as it is being driven into official default. Under the rubric of "risk aversion," a portion of those assets are being transferred to Mexico and Brazil, *for the moment,* as creditors nervously try to convince themselves that there will not be any Argentine "contagion" of those countries. **Table 2** gives some indication of this process, over the last four quarters.

But "contagion" is unavoidable, starting with Brazil. This is not because Brazil will be "infected" by Argentina in some fashion. It is because both countries are victims of the same global financial disease, the hyperinflationary blow-out which has been under way since the late 1990s. Brazil is particularly vulnerable because of its gigantic real foreign debt, and the fact that, over the last year, it has increasingly covered its foreign financing requirements with public bonds *denominated in dollars*. Such bonds automatically ratchet up the country's total public debt every time there is a devaluation of the Brazilian real—without borrowing a single new penny.

Similar dollar-denominated bonds were the particular trigger that exploded Mexico's debt bubble back in late 1994. Now, Brazil, facing a dramatic shortage of foreign capital with which to roll over its bubble of financial obligations, has constructed the same house of cards that collapsed Mexico. Over the last year, these dollar-denominated bonds grew from about 20% of Brazil's total public debt, to over 30% of the total.

TABLE 1
Ibero-America: External Financing
(Billions $)

	1998	1999	2000	2001	2002
1.0 Private flows, net	98.7	65.3	61.2	44.6	42.7
1.a Direct equity	50.1	74.8	57.1	49.0	35.0
1.b Private creditors	47.6	–1.3	8.9	2.0	8.6
2.0 Official flows, net	18.7	5.4	–10.2	26.1	22.6

Source: Institute of International Finance.

TABLE 2
Foreign Claims On Ibero-American Nations
(Billions $)

	2000 Q3	2000 Q4	2001 Q1	2001 Q2
Argentina	69.6	68.8	65.9	64.3
Brazil	63.8	67.6	67.8	69.5
Mexico	61.6	63.6	69.0	67.6

Source: Bank for International Settlements.

U.S. Finally Turning Against FARC Terrorists

by Valerie Rush

The mid-October capture in Bogotá, of a top money-launderer for the Revolutionary Armed Forces of Colombia (FARC) narco-terror cartel, provided the Bush Administration and its allies with a golden opportunity to reverse years of disastrous tolerance of narco-terrorism in the Americas. A joint, two-year investigation by the CIA, U.S. Drug Enforcement Administration, and Colombian intelligence agencies led them last month to the doorstep of one Juan Pablo Rubio Camacho. Rubio Camacho—according to Colombian National Police reports—had laundered millions of dollars in profits from kidnap ransoms and drug-trafficking and extortion, as the FARC has expanded over the past decade into the most dangerous drug cartel in the Western Hemisphere.

Seized along with Rubio, who has agreed to turn state's evidence in exchange for enrollment in the U.S. Federal Witness Protection Program, was a veritable treasure trove of names, phone numbers, shipping documents, and income legders detailing the FARC's multibillion-dollar activities. One U.S. agent told the media: "This is just the beginning. . . . The hunt will be intense. The objective of Colombian, U.S., and world authorities is to unmask and put an end to the economic emporium the FARC has set up through the drug trade. We are going for . . . the heads of this group."

Bush's State Department has put together a list of suspected FARC financial frontmen, who have been stripped of their U.S. entrance visas. With Rubio's cooperation, FARC bank accounts will now hopefully be identified and seized.

Ironically, the United States has long had in its possession all the evidence it needed, not only to declare war on the FARC Cartel, but also to go after the *true* heads of this narco-terrorist gang: the Wall Street and City of London bankers who openly invited the FARC's illegal billions to keep their own bloated financial empire afloat.

More than two years ago, New York Stock Exchange President Richard Grasso flew down to FARC-dominated territory in the cocaine heartland of Colombia, embraced the FARC's financial "czar" Raúl Reyes, and reported that he had been discussing "mutual investment opportunities" with this "highly sophisticated" narco-terrorist. Grasso's visit paved the way for a virtual pilgrimage of the world's leading financiers and business magnates down to "FARClandia," the demiliarized zone from which government forces are prohibited. Precisely this "Grasso Factor," as Lyndon LaRouche has dubbed it, must now be targetted.

The FARC Cartel . . . Up Close

When Rubio was arrested, the police also confiscated $50 million worth of financial instruments registered in Panamanian banks, and maturing in 2005. Said one investigator, "The FARC guerrilla leaders move such quantities of money, that they can afford the luxury of putting such amounts in instruments at very long term . . . because they don't need it."

Indeed, according to a report published in the Colombian daily *El Tiempo* of Nov. 6, the FARC's three main sources of income—"vaccinations" (protection money extorted from Colombia's businesses), kidnap ransoms, and drug trafficking—have yielded over $3 billion in the past decade! Some have purchased highly sophisticated weaponry; some have hired mercenaries to train the FARC's estimated 16,000 narco-terrorist cadres in assassination, demolition, and other tactics of irregular warfare. But a large portion has gone into bank accounts scattered around the world; into the kind of investments NYSE President Grasso was so anxious to discuss with Raúl Reyes.

Equally as important as the details on FARC money flows now coming to light, are its international connections. It was known last year that the FARC had forged a multimillion-dollar alliance with the Tijuana Cartel in Mexico, when FARC leader Jorge Briceño Suárez (a.k.a. "Mono Jojoy") deployed Dr. Carlos Ariel Charry to Mexico, to negotiate a 20-ton shipment of cocaine from the FARC. When Charry got busted in Mexico, he was found to be carrying a video of himself, arm-in-arm with "Mono Jojoy," that was intended as his "letter of introduction" to the Tijuana Cartel bosses.

Then there was "Operation Black Cat," the joint Colombian-U.S. military raids held in February 2001 near the Colombian border with Brazil. About 10,000 hectares of coca under FARC control were discovered, along with 12 cocaine labs capable of producing two tons of cocaine a week. Fernandinho Beira-Mar was captured—a leading Brazilian druglord living in Colombia under the protection of the FARC for the past year, and said to be responsible for 60% of the drugs smuggled out of Brazil.

The evidence obtained with Rubio's arrest and cooperation has enabled the United States to escalate against the FARC. But it was the events surrounding Sept. 11 that transformed U.S. policy, giving the upper hand to those inside the Bush Administration, who have been arguing for an end to U.S. support for President Andrés Pastrana's illusory "peace negotiations" with the FARC. Indicative are comments in October by U.S. Ambassador to Colombia Anne Patterson, that U.S. policy would now focus on cutting off the financial flows to the FARC Cartel and indicting and extraditing FARC chieftains on drug-trafficking and money-laundering charges.

As LaRouche has insisted, the only way to defeat terrorism is to cut off its sustenance—the global trade in illegal drugs and weapons. Washington's apparent turnaround in policy toward the FARC is an important first step in that direction; but the "Grasso Factor" will have to be taken on.

‘ASEAN-Plus-3’ Responds To U.S. Economic Collapse

by Michael Billington

The cover story of the Jan. 19, 2001 issue of *EIR* was titled, “The Demise Of An Importer Of Last Resort,” in which Lyndon LaRouche demonstrated that the ongoing collapse of the U.S. economy was not cyclical, but systemic, and warned the nations of Asia and Ibero-America that their exports to the United States would continue to collapse along with the U.S. economy. LaRouche had already warned the world that the so-called “Asian crisis” of 1997-98 was not “Asian” at all, but the beginning of a global systemic financial breakdown, which could be resolved only by breaking absolutely from the bankrupt International Monetary Fund (IMF) system and building a new monetary system, the “New Bretton Woods.”

Nevertheless, the IMF, while huge amounts of capital were being extracted from the Asian economies, both in debt service and in flight capital, succeeded in convincing these governments that they could “export” their way out of the crisis, by orienting toward the supposedly inexhaustable U.S. import market—especially in “New Economy” electronics. *EIR* representatives who visited Japan, South Korea, China, and several Southeast Asian nations during the Spring and Summer carried LaRouche’s warning about the U.S. economy, which was taken quite seriously, but often met with a response of the sort: “We sure hope he’s wrong.”

On Nov. 5-6, 2001, in the capital of Brunei, the ten members of the Association of Southeast Asian Nations (ASEAN) and their three East Asian partners, China, Japan and South Korea, meeting for the Fifth Summit of the ASEAN-Plus-3, responded to the now stark reality that LaRouche was right, as they observe the U.S. markets plummet, leaving the export-oriented economies of Asia in shambles. Summit chairman Sultan Hassanal Bolkiah of Brunei, in his press statement summarizing the developments, said that the assembled heads of state and government were faced with a “severe world economic slowdown,” a “decline in foreign investment,” and the “impact of reduced external demand.” Malaysia’s Prime Minister Dr. Mahathir bin Mohamad said, “There is too much dependence on the U.S.”; China’s Premier Zhu Rongji said that ASEAN-Plus-3 must “rely on itself to withstand the negative impact”; while even Singapore’s Prime Minister Goh Chok Tong, usually a leading spokesman for free trade and the great U.S. market, said, “For us to depend on the U.S. alone as a market for growth will be much more difficult in the future.” After all, the Singapore economy, dependent almost entirely on “New Economy” exports, is collapsing at a dizzying rate.

While the leaders have not yet adopted LaRouche’s proposal for a New Bretton Woods monetary system, they did take a number of measures which should have been taken years ago, based on the recognition that they must now rapidly create new internal and regional markets, by promoting the real physical development of the entire region. Whether these measures are too little and too late depends not only on the success of their implementation within and among the Asian nations, but even more so on the capacity of the 13 nations to integrate their efforts with the crucial developments now centered in Russia, to build political and economic alliances across the Eurasian continent, as the basis for a new world economic order.

The Measures Adopted

The measures adopted in Brunei include:

The establishment of a Secretariat for the ASEAN-Plus-3, to facilitate a continuing discussion and implementation of policy on a permanent basis. In fact, Dr. Mahathir had proposed such an institution in the early 1990s, to be called the East Asian Economic Group (EAEG), but opposition by the United States against any “Asian only” organization led Japan and others to withhold their support. Things have changed. Dr. Mahathir told the press that the new institution would focus on regional infrastructure development projects, while formulating a common policy in regard to the effort to create a new international financial architecture. Some of the leading advocates of the creation of an Asian Monetary Fund and greater economic independence from the IMF told *EIR* that such a permanent structure is an essential prerequisite.

The creation of a Chinese-ASEAN Free Trade Area (FTA). Chinese Premier Zhu Rongji first proposed the idea at the ASEAN-Plus-3 Summit last year in Singapore. The FTA will be implemented incrementally over the next ten years. The plan was intended in part to meet the fears in Southeast Asia that the huge productive capacity in China may swamp the ASEAN economies, especially after the entry of China into the World Trade Organization in November 2001. The plan creates a deliberative body to oversee trade, but goes far beyond trade issues: The five priorities are to be agriculture, information technology, human resource development, investments, and the joint development of the Mekong River Basin. The first meeting of the new FTA will be among the transport ministers—a promising sign of the direction they will take. In addition, China has agreed to help in building the Laos section of the Singapore-to-Kunming “Asian Railway,” in addition to their own section. China will also help in blasting and dredging sections of the Mekong River in Myanmar, Laos, and Cambodia, to increase navigability, while giving special tariff concessions to the poorer nations of ASEAN—the three just mentioned plus Vietnam.

A new cooperation agreement between the “Plus Three.” Japanese Prime Minister Junichiro Koizumi, Korean President Kim Dae-jung, and Chinese Premier Zhu Rongji took an initiative of their own on the sidelines of the ASEAN-Plus-3 Summit. They agreed for the first time to hold annual meetings of their foreign and economic ministers, and to establish a business forum of government and industry leaders to meet at the same time. This comes after a period of friction between the three nations over fears of a renewed Japanese militarism, which has been generally overcome by visits undertaken by Koizumi to China and South Korea over the past weeks. In describing the agreement for the new cooperative relationship, President Kim's spokesman presented an ambitious set of priorities, including the development of western China, the establishment of a logistics center for the development of Northeast Asia, and "other big-ticket infrastructure projects."

FIGURE 1
East And Southeast Asia

Ties To India

Another important initiative was taken by the ASEAN nations, separate from their "Plus 3" partners. ASEAN and India determined to form an ASEAN-Plus-1 dialogue, which will hold annual meetings, although not simultaneously with the ASEAN-Plus-3. Thailand, which participates with India in two other regional groupings committed to the development of the Ganges and Mekong regions, has led the effort to engage India with ASEAN and the ASEAN-Plus-3. Previously, Malaysia had objected to such an agreement, not because of any problem with India—in fact, Malaysia is increasingly engaged in both trade and construction projects with India—but because of the Kashmir problem, and not wanting to show partiality in the India-Pakistan problems. Malaysia has now agreed to the dialogue, while still advising caution.

Japan, despite cutbacks in many areas of its foreign aid and investment because of its internal financial crisis, agreed to extend financial support for several projects in Southeast Asia, including the east-west road from Da Nang, Vietnam, passing through Laos into Thailand, which is already under way, and a new plan for a second east-west road, from Ho Chi Minh City, through Phnom Penh, into Thailand.

Finally, several steps are being taken to prepare for the expected collapse of the dollar-based monetary system. Further measures were taken to strengthen the so-called "Chiang Mai Initiative" launched in May 2000, setting up swap arangements among the ASEAN-Plus-3 nations, to be used in mutual defense against any new round of currency speculation. China concluded a $2 billion deal with Thailand, and several other bilateral deals were announced to be in the works. At the same time, several bilateral agreements for "account trade"—a form of barter arrangement allowing trade between countries using their own currencies rather than dollars—were signed on the sidelines of the summit. Thailand will be selling rice to Indonesia and the Philippines in exchange for fertilizer, aircraft, and other industrial goods. Thai President Thaksin Shinawatra succeeded in winning approval for the process as a general method to expand regional trade. "Under the system," Thaksin said, "we need no additional foreign reserves, but can be compensated with goods. In addition it will strengthen intra-ASEAN trade rather than reliance on external countries."

Transalpine Transport Systems Near Collapse

by Claudio Celani

An airplane accident in which all 118 passengers are killed, is no longer big news, after the events of Sept. 11. And yet, the collision of an SAS passenger plane with a private Cessna on the runway of Milan's Linate Airport on Oct. 8, is one of the largest civilian airplane accidents in recent times. Less serious, in terms of the number of victims, but more important in terms of implications for the whole Central European transport system, was the accident that, two weeks later, on Oct. 24, caused the closure of the Gotthard Tunnel, the main north-south transalpine connection through Switzerland.

Both accidents were the result of the lack of infrastructural investments over the last 20 years: In Linate, it was the absence of a simple ground radar; in Gotthard, it was the decision not to build the second tunnel, which was part of the original project design.

Nature is now presenting its bill all at once: With the Mont Blanc tunnel between France and Italy still closed after an accident in 1999, and a problematic situation in the Austrian-Italian connections because of the closure of the Tauerntunnel, the entire transalpine transport network is near collapse. In addition, the consequences of the Linate accident on the Italian air transport system threaten to virtually cut off Italy from major east-west and north-south routes.

Six Years To Replace A Radar

The investigation into the Linate accident has established that a private Cessna Citation jet was crossing the runway in the wrong place, just as a Scandinavian Airlines MD87 was taking off. Because of the thick fog, the SAS pilot saw the Cessna only two seconds before the crash; despite the pilot's attempt to get the jet airborne, it rammed the Cessna at 300 kilometers per hour, disintegrating the small plane and killing the four persons on board. The severely damaged SAS jet then crashed into a nearby luggage depot, killing all its passengers and four workers who were in the depot, in a giant fire. A larger tragedy would have occurred if the SAS jet had crashed into the terminal building a hundred meters away.

Despite the fog, the fact that the Cessna was in the wrong position should have been detected by the control tower, through ground radar. But the old ground radar was retired in 1995, and a new ground radar, delivered by a Norwegian company, has never been made operational because of "bureaucratic, technical" reasons. Also, there is the responsibility of the airport company, SEA, and of the National Air Assistance Agency (ENAV). SEA was privatized a few years ago. ENAV is still state owned, but it is operated according to market principles. It seems that ENAV closed one eye (or both) to the serious security risk, not to "interfere" in the cost/benefit-based decisions of SEA.

In a statement, the vice president of the European Transport [Union] Federation, Iacopo Prissinotti, said: "The radar was not working because of the commercial decision of ENAV. We have long argued that the trend of commercialization in Europe is undermining safety. We hope that this tragic accident will force politicians and Air Navigation Service providers to put safety at the heart of the ATM [air traffic management] system."

Last August, ENAV employee Mauro Iannucci, a trade unionist, had publicly denounced the dangerous situation in Linate, and had been threatened with layoff.

In the meantime, the Italian government ordered ENAV to make the ground radar in Linate operational by the end of the year, and to run checks in all other Italian airports by the end of October. It has been reported, for example, that Malpensa, the new intercontinental hub west of Milan inaugurated last year, has no operational ground radar either. The device is there, but it does not yet work "because of software adjustment problems." Malpensa, like Linate, is owned by SEA. Malpensa and Linate suffer from heavy fog more than 80 days per year.

Under pressure from the government and in order to avoid further responsibility, ENAV decided to down-rate six major Italian airports (Milan-Linate, Milan-Nalpensa, Rome-Fiumicino, Bologna, Bergamo, and Trieste) from the third category, which allows plane movement down to 75 meters visibility, to the first category, which forbids movements with visibility less than 550 meters. This almost provoked paralysis, with 169 flights cancelled and 17,000 passengers grounded in one day, Oct. 31, when the procedure was applied to the letter. Airline companies, which are faced with unbearable costs, are threatening to close their operations in Linate and Malpensa if normality is not restored.

An Anticipated Disaster

That there were "only" 11 deaths in the Gotthard tunnel accident and fireball which developed on Oct. 24, is owed to the fact that the 17 km highway tunnel has two rescue tunnels, one on the left and one on the right, through which people could escape. In this sense, modern techniques have proven to be life-savers. However, the possibility that such an accident, a head-on collision between two vehicles, would occur, was very high. The Gotthard tunnel constructor, Giovanni Lombardi, had warned in the Summer of last year that it was only a question of time before a "catastrophe" occurred.

The Gotthard tunnel is a single "tube," with one lane in each direction. It was not planned so; however, the Green

The approach to the Gotthard tunnel in the Swiss Alps.

opposition, together with the budget-cutting ideologues, succeeded over the last 20 years in stopping construction of the planned second tunnel.

Had the second tunnel been built, an accident such as the one on Oct. 24 would have never happened. According to reconstructions of how the accident occurred, a truck lost control because a tire blew, and crashed into another truck coming in the opposite direction. A toxic fire developed, involving a load of tires on the second truck. Temperatures rose to more than 1,000°C, melting the roof of the structure, which collapsed along a 100 meter track. For two days, firemen could not reach the center of the accident because of the high temperatures. Unfortunately, the rescue tunnels are not large enough to let a firetruck through. If a second tunnel had been there, fire trucks could have reached "ground zero" in a few minutes, and quickly extinguished the fire.

As a result of the accident, the Gotthard tunnel will be closed until next spring.

This is a tremendous blow to north-south freight and passenger connections, of which the Gotthard is one of the main axes. The other axis is the Brenner pass, which goes through Austria. Because the Mont Blanc tunnel, which connects France and Italy, had been closed earlier, the Gotthard was already under stress, with 18,700 vehicles daily, 4,000 of which are trucks. Switzerland has no practical alternatives, and now the Brenner pass is threatened with total congestion. Since the Mont Blanc tunnel will not be reopened before Dec. 15, and only for cars, commercial transport from northern Central Europe to Italy, and from east to west within Southern Europe, will suffer a tremendous blow. For Italy, the road bottlenecks are adding to the airways crisis, threatening to virtually isolate the country. In Switzerland, the economy of an entire region, the Canton Ticino, is already on its knees.

The long-term solution is a shift of commercial traffic from road to railway, but this cannot be improvised from one day to the next.

A 'Pearl Harbor' Effect

Moreno Bernasconi, editor of the Ticino-based *Giornale del Popolo,* characterized the Gotthard accident, together with other shocks that hit the Swiss nation in recent weeks—including a murderer who ran amok in the Zug regional Parliament, and the bankruptcy of the national air company, Swissair—as a "Pearl Harbor" kind of shock in the population, with several immediate effects. Speaking with this author, Bernasconi predicted that an entire political class which over the last 20 years has carried out an "isolationist" policy—in disregard for what happened outside Switzerland, cultivating bucolic and consumerist utopias—is going to be swept away. This political class has allowed progress in modernizing Swiss infrastructure in the context of European and Eurasian perspectives, to come to a complete stop. "Switzerland will return to be what it has been over the centuries: the guardian of the Alps, the crossroads of Europe, as reflected in the cross on our flag," said Bernasconi.

Of course, as concerns the Gotthard, the second tunnel will now be built, but this has to follow procedures, which means a referendum whose date will be established by the National Assembly. Predictably, in the national elections scheduled two years from now, the government parties will pay the bill, in favor of opposition populist Christof Blocher.

In Italy, a small sea-change in the popular attitude had already occurred last Spring, with the electoral victory of Silvio Berlusconi, the current Prime Minister. The central issue of Berlusconi's campaign was infrastructure modernization. And indeed, in the first 100 days of his government, Berlusconi has worked hard to implement what he promised, starting from the so-called "*legge obiettivo,*" a bill which cuts red tape for infrastructure projects considered of national strategic interest. Unfortunately, the bill was supposed to be finally approved by Parliament by the beginning of October, but it was sabotaged by the fact that more than 100 majority members were not in the room during the vote—most of them were drinking cappuccino at the Senate bar. Reportedly, Berlusconi, who at each government meeting asks Infrastructure Minister Pietro Lunardi when the great projects are going to start, was furious, but could not avoid the fact that the bill will now have to be presented again, which means at least a one-month delay.

The government commitment to infrastructure development was confirmed by Infrastructure Minister Lunardi in Parliament on Oct. 24, when he announced accelerated procedures for building the Messina Bridge. However, this means that the first stone could be laid no earlier than 36 months from now. "These deadlines," Lunardi said, "might seem long, but in reality are very short, if one considers the dimensions of the work and the considerable amount of financial resources being mobilized."

Yet, as the transalpine bottleneck and the airport crisis show, and as the international depression becomes more serious, the government is facing an emergency of far greater dimensions than it ever imagined. Such an emergency can be faced only by instituting a New Bretton Woods system to replace the unsalvageable global financial system, combined with a Eurasian Land-Bridge development program, as proposed by Lyndon LaRouche.

Fannie Mae-Backed U.S. Housing Bubble Is Set To Explode

by Richard Freeman

The so-called U.S. "housing boom," which has propped up consumer spending and a section of the U.S. economy for the last several years, and which itself is propped up by one of the biggest financial bubbles in the last hundred years, is now headed on a downward slide. The implications are ominous: A popping of the housing bubble would jolt homeowners, leading to a plunge in property values and a dramatic increase in the rate of housing mortgage defaults, and would also potentially wipe out trillions in housing-related financial paper, seizing up the U.S. financial system.

In particular, the popping of the housing bubble would directly affect the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corp. (Freddie Mac), which have issued trillions of dollars of housing-related paper in order to facilitate a large volume of home sales and home price inflation since 1993.

Housing has been one of the few sections of the U.S. economy that has not yet tanked, and the housing sector places orders for structural iron, wood, cement, glass, and other materials, holding up a limited section of the U.S. economy. Homes have also served as financial assets, against which consumers borrow funds to use for their increased spending. Now, this total process appears to be coming to an end.

The Market's Rise And Fall

The housing bubble depended upon an interaction of rising home sales and rising home prices.

However, the Meyers Group, a real estate consulting firm, reported that in California during the third quarter, new homes sales fell 30% from the same quarter a year earlier. This is an enormous fall, in what had been the leading market for home sales in the United States. For the same period, the declines in new home sales were 35% in Washington, D.C., 19% in Philadelphia, and 31% in Baltimore.

The Commerce Department reported that sales of pre-existing homes in September fell by 12%.

As for home prices, during the post-1993 housing bubble, they had gone sky-high. Between January 1993 and May 2001, the *median* sales price of a new home in the United States shot up from $121,500 to $179,400, and the *average* sales price of a new home from $144,100 to $211,700, representing increases, respectively, of 47.7% and 46.9%.

But these national rates of increase, though substantial, understate the fact that in some areas home prices have increased even more explosively. These national rates combine two processes: those areas of the country hard hit by the physical economy's collapse, where home prices have fallen or stayed level, and those areas artificially propped up by the "New Economy," "Information Age," and speculative financial markets, where home prices have been white-hot. Of the latter, for example, since mid-1995, home prices leapt by 40% in Atlanta, 54% in New York City, 68% in Boston, 71% in Denver, and 100% in San Francisco. But the puncturing of the New Economy and speculative financial bubbles has caused a downturn in home prices.

The cumulative fall in home prices can be seen in the fact that, just between June and September of this year, on a national basis, the median home price fell from $179,400 to $162,400, and the average home price fell from $211,700 to $195,7000. On an annualized basis, these represent rates of home price fall of 37.9% and 29.7%, respectively.

Pumping Up A Bubble

The stakes in maintaining the housing bubble are high, because of how huge it has become.

From 1990 to the end of the second quarter of 2001, the volume of U.S. home mortgage debt outstanding has risen from $2.53 trillion to $5.14 trillion. Thus, during the ten and one-half years since 1990, housing mortgage debt outstanding rose by $2.63 trillion. Of that increase, some represented the amount needed to finance the roughly 1 million new homes that were brought to market and sold each year. But most of that increase represented the financing of the increased prices of homes that were to be covered by mortgages, sales of both new homes and existing homes.

For the U.S. home mortgage bubble to have reached $5.14 trillion, already poses a threat to the stability of the financial system. But there is another level of activity, in the secondary home mortgage market, which makes the situation far more dangerous:

The United States created Fannie Mae during the 1930s, to facilitate home sales. This was an appropriate decision. The system functions in the following way: Once a primary mortgage lender, such as a bank or savings and loan association, makes a home mortgage loan to a buyer, for, say, $250,000, the primary lending institution can then sell this $250,000 loan to Fannie Mae. As a result of that transaction, the primary lending institution now has received $250,000 in cash from Fannie Mae, with which it can make a new home mortgage loan. Fannie Mae can either hold on to its $250,000 mortgage loan until maturity, when it is fully paid back, or it can sell it to an institutional investor, such as an insurance company or a pension fund.

Fannie Mae raises cash by either issuing its own bonds, or selling off the mortgages it has bought, to an institutional investor. This system worked to provide liquidity to the home market, to finance home purchases at fair, reasonable prices.

Inventing Mortgage-Backed Securities

But the system changed. From a government-sponsored entity, Fannie Mae became a private institution. It has more and more become concerned with building a housing bubble: Fannie Mae financed (by purchasing) over-priced home mortgages (though Fannie Mae has a limit of $275,000 in the size of conventional home mortgages it can buy). Further, during the early 1980s—after Federal Reserve Board Chairman Paul Volcker raised interest rates into the stratosphere in October 1979—Fannie Mae effectively invented mortgage-backed securities, a form of a derivative, or speculative instrument. Through this process, Fannie Mae became a gigantic organization, concerned with making money off a rapidly expanding, speculatively driven home real estate market. In fact, its survival depended on the continuing expansion of this market.

Fannie Mae, Freddie Mac, and other institutions with a similar function, began issuing a ton of financial paper (bonds, mortgage pools, mortgage-backed securities) to finance the home mortgage market. By the end of the second quarter of this year, they had issued more than $5.25 trillion of this paper. (In a future issue, *EIR* will present the full story of Fannie Mae.) Accordingly, the total amount of financial paper connected to the housing market, including U.S. home mortgage debt, plus the housing-related paper issued by Fannie Mae, Freddie Mac, etc., totalled $10.39 trillion by the end of the second quarter of this year. This is an immense amount to be riding on the outcome of the U.S. housing market.

The top financiers, Fannie Mae, and the Federal Reserve Board of Governors have all reacted to this crisis frantically. Thus far, the Fed has cut interest rates ten times this year, which has consistently lowered the U.S. conventional mortgage rate, so that is is now 6.46%, the lowest rate in more than 25 years. This has created a surge in home mortgage refinancing, to take advantage of the low interest rates. Since Sept. 11, about 1 million people have applied for refinancing—six times as many as during the comparable period last year. By thus generating a new round of mortgage financing, this has kept the mortgage market alive.

But the bloated U.S. housing bubble cannot survive falling home sales and plunging home prices. A housing market bubble blowout that brings down $10 trillion or more in paper values, will seize up the U.S. financial system.

Pakistan's Gwadar A Potential 'Great

by Mary Burdman

A serious casualty of the ongoing U.S.-U.K. war against Afghanistan, could be an infrastructure project which has the potential to help transform one of the poorest regions in the world. This is the proposed deep-sea port at Gwadar, on the coast of Baluchistan, the largest but poorest province of Pakistan.

Constructing a deep-sea port at Gwadar has been discussed for many years, but only in 2001, when the government of China agreed to be sole sponsor of the project, did its construction become possible. However, the all-out move of U.S. forces into the area since war was launched on Afghanistan on Oct. 7, is jeopardizing the project.

A look at the map will indicate why. Gwadar, a port since ancient times, and one of the main communication routes between West Asia (the Middle East) and the South Asian Subcontinent, lies in a most strategic position, near the mouth of the Strait of Hormuz, where the Gulf of Oman joins the Arabian Sea. Every year, some 60% of the world's oil is transported through the Strait of Hormuz.

Plans to be carried out by China and Pakistan, to eventually turn Gwadar into a "world class" 21-berth port which could serve as a regional hub for Pakistan, Iran, the Gulf states, East Africa, and, if planned road and rail connections are constructed, Central Asia and western China, have caused what one Indian newspaper called an "antsy" reaction in Washington, notably at the rabidly anti-Chinese spook-sheet, the *Washington Times*.

Circles in India have also expressed concern. Certainly, New Delhi has a legitimate basis to inquire about the intentions for such a project, given its relations with Islamabad, and the role Pakistan has played in various operations originating with the U.S. Carter-Brzezinski Administration and the Iran-Contra drugs-for-guns operations. These operations have reduced Afghanistan, and areas of Pakistan, to a breeding ground for drug-runners and terrorists, posing a threat to the entire region.

However, the essential issue is what could ever finally lift this region out of its current chaos.

Pakistan lies at the border of West Asia—the Mideast, the Gulf region, and Iran—and the Subcontinent, one of the two greatest concentrations of population in the world. Afghanistan, to the north, is one of the world's great historic passageways, linking Central Asia to the Subcontinent, West Asia,

Port Is Project'

and beyond. Since pre-historic times, populations and conquerors passed through this region—mostly to its repeated destruction. At the same time, this region has also been, for millennia, one of the most densely traversed cultural crossroads in the world.

To transform this area, new infrastructure is vital, to link it to the great "Eurasian Land-Bridge." This certainly is an enormous task. The issue is, whether projects such as developing a new port, and linking it to the regional transport system, could be made to contribute to overall development—or, whether it will fall victim to the geopolitical wars and resource grabs dominating world policy today.

Clearly, the domination of Afghanistan by the Taliban regime—which is not recognized by Beijing—was already a fundamental problem for this project, and is now becoming an existential issue.

Links To Western China

Islamabad had let it be known in 1997, that it wanted to build a bigger port at Gwadar, because the one at Karachi is totally inadequate. The tensions which arose over the nuclear tests in May 1998 caused the project to be shelved, and, because of its own financial disaster, Pakistan has had to put off construction from year to year.

China had long expressed interest in the project. A deep-sea port at Gwadar could provide one link in China's overall strategic plan to develop its vast, but impoverished and landlocked western provinces. Further to the east, already routes are being opened from China's Yunnan Province, via the old World War II "Burma Road" and the Irrawady River, through Myanmar, one of the poorest of nations, to the Bay of Bengal and the Indian Ocean. This would lessen Chinese dependence on shipping lanes in the South China Sea. To the north and west, China is also investing in improving the Karakoram Highway, along the famous "Silk Road," which highway was itself built by Pakistan and China in the 1970s, and the Gwadar project.

In November 2000, the Governor of Baluchistan, Amirul Mulk Mengal, took up the issue with a Chinese delegation visiting Qetta, and asked for Chinese support for the port, and to link it by rail to the Pakistani rail system at Dalbandin, the "jumping off point" from South Asia, through Afghanistan, to Central Asia.

During the visit of Chinese Prime Minister Zhu Rongji to Pakistan in May 2001, the Gwadar port was a key item of discussion. China agreed to cooperate with Pakistan on seven important projects, including to provide a $198 million-equivalent credit toward the $250 million total needed to construct Phase I of the port. This loan, unprecedented in size for foreign lending by China, is to be guaranteed by the Beijing Exim Bank; $50 million would be an outright grant, $50 million a commercial credit, and $98 million a state credit, repayable at generous terms over 15 years. The remaining $50 million in funds, is to be arranged by the government of Pakistan. Phase I includes dredging the existing port, and construction of the first three berths and other essential facilities.

Most important, is that in September, a group of Chinese experts told Islamabad that it should reject the existing plan for the port, designed by a British firm, because it lacked planning to accommodate long-term requirements. The Chinese experts embarked on creating a new design, which would include, in Phase II, building a large railway station and laying rail tracks to the main Pakistani rail line via Panjgoor and Dalbandin. This line connects to Qetta and Islamabad, and, to the west, to Zahedan in eastern Iran. From Dalbandin, there is a road link to Kandahar, Afghanistan. Modern road links between south and north Afghanistan were first built in 1937, uniting the country. These links still exist—were the civil war ever ended. Eventually, Gwadar could also be connected to China directly, via the Indus Highway and the Khuzdar-Rattodero road, and to the Karakoram Highway.

Phase II

During his May visit, Prime Minister Zhu Rongji called the Gwadar port a "monumental project" to mark the 50-year friendship between China and Pakistan. China also agreed to sell Pakistani Railways 69 locomotives and 175 passenger coaches, and Pakistani Minister for Communications and Railways Javed Ashraf Qazi announced that China is to provide $100-200 million in financial assistance in soft loans to modernize Pakistan's rail system. Other projects include development of the Lakhra coal reserves in Sindh, and the Sust "Dry Port," on the Pakistani-Chinese border on the Karakoram Highway. Extension of financial agreements, under which the Bank of China had deposited $500 million in the National Bank of Pakistan in 1997, were also under discussion.

Intensive back-and-forth on the Gwadar port followed. In June, Chinese Communications Minister Huang Zhendong and a team of experts visited Pakistan, and the two sides began work on a detailed study of the technical aspects of the projects. In August, a Pakistani delegation led by Finance Minister Shaukat Aziz and Communications Minister Qazi visited Beijing, to meet Chinese Minister of Foreign Trade and Economic Cooperation Shi Guangsheng. Shi and Aziz signed a formal agreement for funding Phase I of the Gwadar port, and Beijing also pledged to assist in construction of the

FIGURE 1
West, Central, And South Asia Rail Connections, East And West

coastal highway linking Karachi with Makran. Construction was to have started by December 2001, and both projects were to have been completed within three years.

Shaukat Aziz then outlined Phase II, to be launched when funds are available. This would require an investment of $800 million, to make Gwadar an important transshipment point for the entire region. Another 18 berths would be constructed, as well as new container terminals, a dry bulk terminal, a grain terminal, oil terminals, and dredging facilities.

A desalination plant would be established for drinking water, and the power grid would also be extended to Gwadar. Work has already begun on a 900 kilometer, 132 kilovolt power transmission line from Turbat to Gwadar. Oman, which, until 1958, controlled Gwadar, and Saudi Arabia have proposed economic aid to the project.

The Greater Regional Potential

Gwadar port's potential to become a regional hub is great. The Pakistani province of Baluchistan is strategically located, but extremely poor, and with a history of social unrest. In recent years, severe drought, also affecting Afghanistan, has struck the region, where most people are dependent upon their livestock herds for survival. Reportedly, the serious lack of water has led to friction, including with neighboring Iran, and there are indications that this has held up completion of the Karman-Zahedan railroad in Iran, which would eventually link Pakistan to West Asia. However, Baluchistan also has great underground and coastal reserves of petroleum, gas, coal, and minerals, including uranium. It is also marked out as being the place where Pakistan carries out its nuclear tests.

Gwadar could become an alternative oil transport route to the Strait of Hormuz, which had been so long blockaded during the Iran-Iraq War. Pakistani analysts note that, eventually, Gwadar could offer Central Asian nations a far more reasonably priced outlet for their oil than current Western operations.

The long-discussed Iran-India natural gas pipeline project could also pass through Gwadar. This could also lead to building an oil pipeline, and, potentially, an oil refinery could be built at Gwadar. An oil pipeline link to Kazakstan is being mentioned, and China also has interests in the oil potential of the area.

Another link to this hub, could be the "ECO Highway," to Turkmenistan and other Central Asian states. In 1996, the Economic Cooperation Organization (ECO), the Tehran-based association of Iran, Pakistan, Turkey, Afghanistan, Azerbaijan, Kazakstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, set up the ECO Highway. This project was to upgrade existing roads in Afghanistan to link Chaman, the Pakistani border town, to Tor Ghundai in Turkmenistan via Afghanistan. It has been blocked by the civil war in Afghanistan. The same year, agreements were signed among Pakistan, China, Kyrgyzstan, and Kazakstan, to send truck convoys along the Karakoram Highway to Karachi. The four countries had already signed an agreement to upgrade the road into an international highway and complete the routes to Bishkek and Almaty.

The wider potential is indicated by the fact that there even exists, in France, an initial survey, made in 1971, for building a rail line in Afghanistan—which has *no* railways at all—from Kabul, to Herat, and to Turkmenistan, Iran, and Pakistan.

India, the most populous nation of South Asia, could also benefit, and not only from the Iran-India energy pipelines. A proposal was published in *EIR* in April 1999, for India to build a connecting road to the Karakoram Highway, linking it directly to China, Tajikistan, Kyrgyzstan, and other Central Asia nations.

War Or Development

The continuing war against Afghanistan is endangering not only millions of lives in that country, but also the potential, however distant, of ever building the "Great Projects" which could end the decades of disaster. At this time, the overwhelming U.S. military presence in the area is casting doubt on plans to go ahead with the Gwadar project this year. It was reported by Pakistan's *The Nation* on Oct. 26, that Pakistani President Gen. Pervez Musharraf is likely to visit China soon, to keep the project from being shelved.

The U.S. military is reportedly demanding some kind of control over about 1,200 km of Gwadar-area coast. The United States also, reportedly, does not want to encourage any such major construction, either near the Strait of Hormuz or its military base in the Indian Ocean, Diego Garcia. It was reported, that the Gwadar port project, considered by the Bush Administration as against U.S. strategic interests, was on the agenda when, in September, Pakistani Foreign Minister Abdus Sattar visited Washington. Meanwhile, the Karakoram Highway has been closed since Oct. 27 by armed Pakistani tribesmen, protesting Musharraf's support for the U.S. war. China had already partially sealed the road after Sept. 11.

If the highly tense situation in Pakistan brings down the Musharraf government, it is unlikely that the construction of Gwadar port would go forward. Like the long-planned Afghan railroad, another project which could, potentially, help transform an impoverished region, the Gwadar port project could be destroyed by war.

Business Briefs

Money Laundering

Sakakibara: Terrorism Could Force Policy Shift

Japan's former Vice Finance Minister for International Affairs Eisuke Sakakibara said, in an interview with the Malaysian *New Strait Times* on Oct. 20, that efforts to shut down terrorists' access to funds could mean a dramatic change in U.S. policy. "It is a very ironical aspect of U.S. policy . . . that the U.S. is pushing for [financial] controls. This will mean a change in globalization as we have come to experience during the course of the last decade or so," he said.

Whether the shift in favor of controls will result in a change in International Monetary Fund (IMF) and World Bank policy, according to Sakakibara, is still uncertain. "But the mood of the world has definitely changed." The daily's journalist Hardev Kaur pointed out that America was in the forefront in urging the free flow of funds and pushed for the opening up of offshore markets even at the height of the East Asian crisis in 1997-98. Now it is urging other countries to follow its lead in freezing assets and funds of terrorist suspects.

Kaur quoted the London *Financial Times:* "The broad sanction powers [imposed by President George Bush] represent a sea change in the U.S. administration's approach to financial regulation and multilateral agreements. Before the terrorist attack, Washington opposed international threats to impose sanctions on tax havens that refused to share information with the U.S." Kaur added that at the height of the East Asian financial crisis, the "U.S. adamantly refused" to even agree to monitoring short-term funds. There was strong opposition from the United States and the IMF. The argument then, was that market forces, globalization, and liberalization were "here to stay" and that the free flow and movements were an essential part of the "New Economy." Malaysian Prime Minister Mahathir bin Mohamad's call for monitoring of hedge funds and hot money were ignored.

Sakakibara said, "Because hedge funds' financial resources are not disclosed . . . I am sure some of the hedge funds have terrorist funds." From the Asian perspective, the hedge funds are the "pirates of the modern finance." He referred to numbered Swiss bank accounts. "Part of that may be terrorist funds and part of it may be for tax evasion. Are the Americans going to change that? . . . At least people in the Pentagon want to change that. But do the people in Wall Street want to change it?" he asked. "If you replace your Prime Minister's attack on hedge funds with the American attack on terrorist funds, it is the same thing. Not only your Prime Minister but U.S. Secretary of State Colin Powell is now calling for the same thing."

Transportation

Shanghai Maglev Project Is Well Under Way

The first guideway girder of the Shanghai magnetically levitated (maglev) Transrapid project was installed at a ceremony on Nov. 2, attended by Chinese Prime Minister Zhu Rongji and German Chancellor Gerhard Schröder. Zhu and Schröder also visited the workshop for making the beams used on the rail track. To date, the bases for 30 kilometers of track, about half of the projected line, have been finished; construction of support facilities, including stations, maintenance centers, and transformers, has begun; and more than 200 guideway girders have been produced in Shanghai.

Schröder said he hopes that other Chinese-German deals will be undertaken, including a 1,300 km maglev line from Shanghai to Beijing. "It's possible that we will see a nationwide maglev project," he said. "One particular characteristic of the Sino-German relationship is that we don't just do business and trade. As the Transrapid . . . shows, Germany is also willing to provide technology to our Chinese partners."

According to the *South China Morning Post,* Zhu Rongji said that the maglev technology, which has never been used commercially anywhere, could be put into service across the Chinese mainland if it proves successful. Zhu has been a key supporter of the maglev project.

Italy

Government Accelerates Messina Bridge Project

Italian Infrastructure Minister Pietro Lunardi announced in Parliament on Oct. 23, that he has ordered the state railway and road companies to present technical proposals for the various rail and road connection options to the Messina Bridge, which will connect Sicily to the mainland.

"The bridge represents not only an essential development" to our infrastructure system, Lunardi said, but is "a unique kind of work, given its technical complexity and economic relevance. It represents above all the spirit of the people of Sicily and Calabria, who finally let their voice be heard. . . . The government is proceding according to a precise program that will lead the works to be started within 36 months, at latest not beyond 50 months from now. These deadlines might seem long, but in reality are very short, if one considers the dimensions of the work and the considerable amount of financial resources being mobilized."

Lunardi said that the government has decided on a joint public-private financing system.

Infrastructure

China Readies 'Move South Water North' Project

Construction of China's huge "Move South Water North" project is now officially set to start next year, Minister of Water Resources Wang Shucheng announced at an Oct. 30 meeting in Beijing to commemorate the 70th anniversary of the founding of the Chinese Hydraulic Engineering Society, *China Daily* reported.

The project, which will channel water on three planned routes from upstream, midstream, and downstream of the Yangtze River, will be "a fundamental strategic solution to North China's drought problem," Wang said. The project will divert some 38-48 billion cubic meters of water from the

Yangtze to the North each year. When it is completed, the amount of water diverted will equal the annual run-off of the Yellow River, the second-longest in China.

In addition to drought relief and flood control, the project's designers will concentrate on the severe problem of water pollution. China pollutes some 60 billion tons of water every year, and more than 80% goes directly into major rivers and lakes.

Medicine

Challenge To Patent Rights Could Save Lives

The threat made by U.S. Health and Human Services Secretary Tommy Thompson to break Bayer's patent for the powerful antibiotic Cipro, unless it sold the drug more cheaply to the U.S. government, is emboldening other nations that have been seeking to break patents on AIDS drugs and other essential medicines, so that they can provide life-saving medicines to their people.

Bayer Corp. normally sells Cipro, the antibiotic which is used for treating pulmonary anthrax, at a wholesale price of $4.67 per pill, and $1.77 per pill to the U.S. government. Under the agreement reached on Oct. 24, Bayer agreed to a reduced price of 95¢ per pill for the Federal government. But Ranbaxy, Inc., an India-owned company in Princeton, New Jersey, is offering to sell it for 40¢, saying, "We'd still be making money at that price." Ranbaxy sells a generic form of Cipro in India for 30¢ per pill. Some companies sell it for 10¢, and others offer to sell it for as little as 5¢ per pill, the Oct. 26 *Wall Street Journal* reported.

Thompson's threat is a sharp shift from the position the U.S. government has taken in the past. The threat reportedly sent a chill through U.S. drug companies, which view the U.S. government as their strongest ally in resisting demands of Third World nations.

Thailand and 50 other developing nations planned to urge developed nations at the Dohar World Trade Organization meeting on Nov. 9, to give up exclusive patent rights over production of medicines for deadly diseases such as AIDS and cancer, which many nations cannot afford. Developing nations want the protection period for the production of medicines to be cut from 20 years to 5-8 years. Thai Commerce Ministry permanent secretary Karun Kittisataporn said that Thailand would recommend that the World Health Organization act as a third party to identify medicines that are life-saving drugs that would be included in any new agreement. "For the sake of human beings, I hope Western countries will accept the shorter period," he said.

Southeast Asia

Mekong Group, China Set To Close Deal

The four lower Mekong River states of Cambodia, Laos, Thailand, and Vietnam are expected to sign an agreement with China soon, according to Thai Science Minister Sontaya Kumplome on Nov. 1, the Bangkok daily *The Nation* reported. Under the proposed agreement, China, which shares half of the river's 4,800 kilometer length, would provide hydrological information for flood management and control. In turn, the Mekong River Commission (MRC) would provide China with equipment to modernize two hydrological stations on the Lancang River (China calls its section of the Mekong River the Lancang).

China plans to build several dams on the main stream of the river, raising fears about water levels among downstream countries. Manwan Dam, in China's Yunnan province, was finished in 1993, and construction of the Xiaowan Dam is to begin next year. The $4 billion structure, which will be as high as a 100-story building, is expected to become the world's tallest dam.

The lower Mekong countries have expressed concern about the possible negative impact of steps China has taken to clear shipping channels in the upper Mekong by dynamiting extensive rapids. The current negotiations, in part, include discussions of China joining the MRC, so as to create a uniform, coherent water-management scheme. The agreement, if signed, would be a crucial step forward, said Sontaya, who is chairman of the MRC's council.

Briefly

U.S. PRODUCTION and new orders declines "are among the largest in the history of our report, which began in 1931," said Norbert Ore, chairman of the National Association of Purchasing Management's Manufacturing Business Survey Committee, in releasing on Nov. 1 the NAPM report on manufacturing activity. Consumer spending in September plunged 1.8%, led by a 3.2% drop in purchases of durable goods.

RUSSIA and its Eurasian Land-Bridge partners' economies are growing amid a world economic disaster, thanks to protection from globalism, the Nov. 4 *Washington Post* admitted. The disaster is increased because globalism, including specific pacts, such as the failed North American Free Trade Agreement, binds nations to the collapsing post-industrial "New Economy," it said.

BUNDESBANK President Ernst Welteke warned, "We have to be careful not to set the stage for the next speculative bubble," in an interview with the German daily *Frankfurter Allgemeine Zeitung* on Nov. 3. He was asked if, because of the low yields on bond markets, the excessive liquidity on financial markets is about to jump into the stock markets again. The central bank head also warned that any more rate cuts would trigger concerns about "long-term inflation."

SOUTH KOREAN creditor banks came up with a rescue package for the ailing Hynix Semiconductor on Nov. 1, "based on their own judgment from a commercial perspective," South Korean Trade Minister Hwang Doo-yun said. The U.S. Special Trade Representative's office had been pressuring the Koreans to let the world's third-largest computer chip maker close its doors on the grounds of "fair trade."

SECURITY for some 1,200 American cities in the wake of the Sept. 11 attacks cost at least an additional $1.5 billion just for September and October, according to a U.S. Conference of Mayors survey.

Berlin Seminar: It's No Recession, It's A Collapse Of The System

by Muriel Mirak-Weissbach

On Nov. 5, *EIR* held its latest Berlin seminar on economic-strategic matters, in the Grand Westin Hotel: this one dedicated to the question, "What Can Be Done In The Face Of A Financial Meltdown?" The seminar had been planned, and invitations sent out, long before the shock of Sept. 11 hit the world. Yet, precisely because of that shock, the conference acquired new, and more profound dimensions. It was not a seminar like many others, but an event which left a deep personal impact on the participants. Numbering over 125, they represented economic, diplomatic, political, and press circles from Germany and other European countries.

In introducing the seminar, *EIR* Executive Director in Germany Michael Liebig brought the point into focus: The world economic-financial breakdown crisis was in full gallop before the terrible attacks on the World Trade Center and Pentagon; but, the impact of those dramatic events on the economy were immense. The attacks themselves, as Lyndon LaRouche identified them as they were in progress, were part of an attempted coup d'état process, by elements inside the United States, who aimed at forcing the U.S. Administration to go to war abroad (in Afghanistan, against presumed perpetrator Osama bin Laden), and to introduce emergency measures at home, including emergency economic-financial measures. The dynamic behind the coup plotters, was their awareness of the impending financial meltdown. They could recognize it as a threat to their power, but could not face it rationally as a reality to be dealt with.

Just how catastrophic the ongoing collapse is, was illustrated in a brief graphical review, by *EIR* economist Lothar Komp, showing the dramatic collapse of virtually every U.S. economic category: business investment, exports, U.S. industrial production, capacity utilization, new orders, manufacturing activity, unemployment, and consumer spending. And the same picture emerged for Europe and Asia. Komp concluded, "The present global economic downturn is not a cyclical recession, that can be overcome by some rate cuts or stimulus packages. Due to decades of destruction of infrastructure and industry by 'shareholder value' ideologies, and in particular due to the biggest financial imbalances in the history of mankind, the world will plunge into a deep depression, unless certain extraordinary measures are taken."

Lyndon LaRouche directly addressed the question, "What Must Be Done About The Economic-Financial Meltdown?" LaRouche said the cause of the crisis today, lay in the "pathology" of the last 35 years, of relying on the mentality of accountants, or of "general public opinion and government opinion, which obviously does not function." Reviewing history, he said, that whereas from 1945-1963, "Western Europe and the Americas and Japan in particular, had prospered . . . [with] a net growth in per-capita physical product, in per-capita standard of living, in per-capita productivity, and the general productivity of industries," in the early 1960s, there was a decline. Over that period, there has been a "succession of changes in the way the world thinks about economy," focussing on financial figures and accounting, rather than real production.

The key to the relative success of the 1945-1960 system, LaRouche said, was the "Bretton Woods system—which was a gold-reserve-based, well-regulated system, a protectionist system—[which] caused those who participated in the system, as nations, to improve the standard of living, to improve productivity and, generally, the perception of prosperity in the future. From the changes that occurred during the interval between 1964 and 1967—a trend of changes—we have gone downward. We went downwards since 1971; the floating exchange system has bankrupted the world."

EIR's Berlin seminar took place in midst of a critical economic downturn, and was widely attended. At the dais are (left to right) Lyndon LaRouche, moderator Michael Liebig, EIR *economic analyst Lothar Komp, and Dr. Wilhelm Hankel, former chief economist of Germany's post-war reconstruction agency, the KfW.*

LaRouche emphasized that "governments must declare the financial system *bankrupt,* and use the sovereign authority of governments, individually and as combinations of sovereign entities, to reorganize the system in bankruptcy," as was done after World War II. He added a second aspect, the need to revive and protect the *sovereign nation-state,* without which no economy can function. LaRouche concluded by appealing to his listeners, to think historically: "Learn to think of humanity as something very ancient in its origin, and think of humanity in what we hope will be a much longer future, than [its] antiquity. *Think in terms of history!* Look at what we're doing today as a system, from the standpoint of historical criticism."

Which New System?

Leading European economists contributed to the discussion, reflecting on their own experience of history, to propose aspects of the new system which must be created. Prof. Dr. Wilhelm Hankel, former chief economist of the Kreditanstalt für Wiederaufbau development bank, and former president of the Hesse State Bank, is one of a group of academics who have challenged the constitutionality of the euro. Hankel referred back to an era in which gold played a role in monetary stability, providing the reference point for fixed exchange rates among national currencies. He proposed returning to the Bretton Woods system, in which Special Drawing Rights (SDRs) would be used, as a standard reference point. In a message read to the conference, Dr. Nino Galloni, department director at the Italian Ministry of Labor, also discussed the need to find an alternative to the "dollar model," and proposed "decoupling the euro from the dollar and linking it to gold (a return to the 'gold exchange standard')." And Jacques Cheminade, candidate for the French Presidency in 2002, also introduced the idea of a "golden euro," proposing that "the nations of continental Europe, as a measure of national emergency under the present circumstances, . . . issue a golden euro." Cheminade pointed to "initiatives taken in Russia and Malaysia going in the same direction, with for example the issuance of the Russian golden chervonets," adding that the "golden euro" be conceived as "a bridge towards the New Bretton Woods."

Attendants at the seminar pursued these ideas; in answer to a question on this, Professor Hankel restressed the importance of establishing fixed rules for monetary stability, and said he preferred the SDR to gold, as the latter would tend to be advantageous to gold-producing countries. LaRouche explored the broader implications for economic cooperation, in gold. Citing Russian debates on gold, and China's "implicit gold-reserve system," LaRouche proposed that European nations immediately move towards discussion with these two nations, on practical steps for introducing gold in a new monetary system. He added that it should be extended to Arab countries, which have considerable gold holdings. In a gold-reserve system, of the type LaRouche has proposed, it would be possible to use SDRs to extend these rights to non-gold-producing nations.

Dr. Kurt Richebächer, former chief representative of Dresdner Bank, and publisher of the *Richebächer Letter,* drew on his long history in banking and economic policy-making, to ridicule the fraudulent methods introduced in recent years in the United States, to "doctor" statistics, and make a catastrophic economic picture look like a "miracle of productivity and profits." When asked in the discussion, what the thinking was of persons of his generation, like the late Jürgen Ponto or Hermann Abs, two old-school industrial bankers, Richebächer answered: "We saved, we invested, and we worked hard. That was the secret to the German economic miracle."

Perspective From Russia

Prof. Tatyana Koryagina, economist at the Institute of Macro-Economic Research of the Russian Ministry of Economics and Trade, explored the relationship between the economic crisis and the Sept. 11 events. She posited the existence of a powerful group of interests, of Malthusian character, which had introduced an "artificial component" into the inevitable economic crisis, exploiting it with the aim of economic and political destabilization, including "changes in governments and military conflicts."

Prof. Yuri Gromyko, from the Moscow Academy of Culture and Education, also addressed the issue of new destructive forces, for example, the so-called religious fundamentalists, characterized by the use of force, and the trend toward de-modernization. Both Russian experts identified the alternative strategy to defeat these forces, in the implementation of a new world economic order, based on a Eurasian infrastructure program for world recovery, in which Russia will play a leading role.

Helga Zepp-LaRouche complemented the Russian viewpoint by raising the role of Germany: "Should Germany Be Allowed To Seize The Initiative For A New Global Policy?" Combatting the notion that Germany, having been defeated in two world wars, does not have the right to do so, Zepp-LaRouche elaborated two historical cases, in which proposals for preventing and overcoming war had been developed. One was the Lautenbach plan of 1931, launched by the economist and Economics Ministry official of that name, in 1931. The project involved massive infrastructure and other projects which would have rehabilitated, reactivated, and expanded idle industrial capacities, and sparked economic recovery. Had it been implemented, Hitler never could have seized power, and the Second World War would not have occurred. Her second example, was the Peace of Westphalia, which put an end to the 1618-1648 religious wars, like those threatening to break out today. Zepp-LaRouche detailed the extraordinary conceptual breakthrough involved in the peace, based not on the idea of hatred and revenge, but on that of friendship and *agapē*. Such a conceptual revolution, she said, is required today, to reverse the drive toward war in the Middle East and other regions. On the basis of these two historical precedents, she urged Germany to exert its "right and duty" to place these items on the international agenda.

We publish here the speeches from the first conference panel. The remaining presentations will appear in a forthcoming issue.

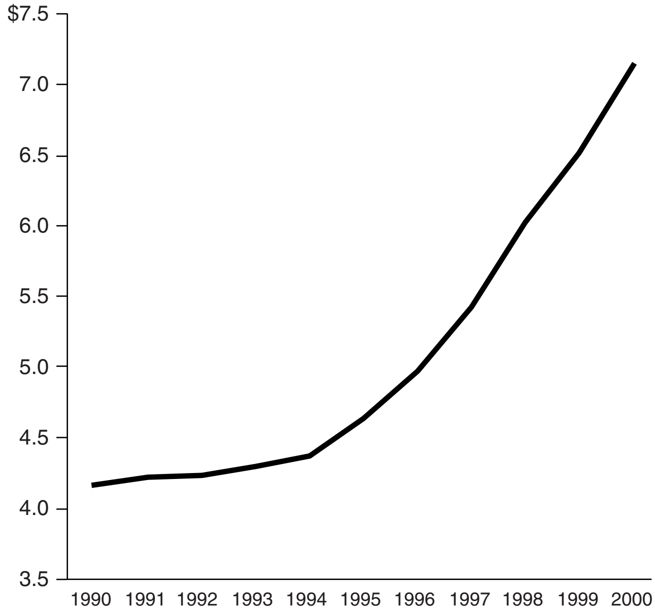
Lothar Komp

The World Is Sinking In Economic Depression

Lothar Komp is an analyst of the international economy for EIR *in its Wiesbaden bureau; he has given the opening presentations on the worldwide physical-economic decline at the past two Berlin seminars.*

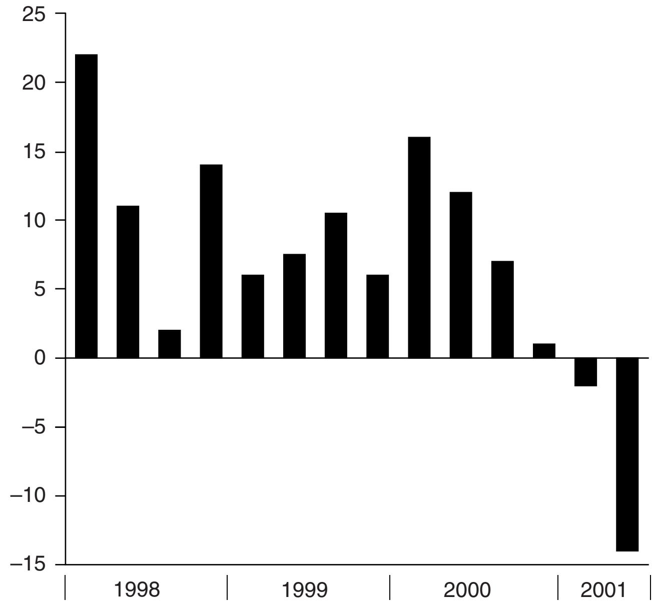
At the moment of our last *EIR* seminar in Berlin, the U.S. Federal Reserve had cut interest rates three times. Illusions were widespread, that in the second quarter, or at latest in the third quarter, the U.S. economy would have overcome the worst and a great recovery would start.

FIGURE 1
U.S. Money Supply, M3
(Trillions $)



Source: Federal Reserve.

FIGURE 2
U.S. Capital Investments
(Percent Change Compared To Previous Quarter)



Source: BEA.

Now we have already seen nine rate cuts this year by the Fed and most probably the tenth rate cut will follow on Tuesday [Nov. 6]. As a consequence of the unprecedented effort of liquidity pumping—further accelerated during September—money supply is rising very fast (**Figure 1**). According to latest figures by the Federal Reserve, the volume of the money aggregate, M1, in the United States increased by $34 billion, or 3.0%, during September, the highest monthly growth rate in 30 years. The annualized September M1 growth rate shot up to 42.3%. The annualized September growth rates of the broader money supply aggregates M2 (25.2%) and M3 (21.0%) are also among the highest in 30 years. Money supply is also rising very fast in Japan and in the euro zone.

However, in spite of these desperate monetary efforts, there has been not the slightest indication of any improvement; neither in the United States nor in the world economy. Quite the contrary: we recently witnessed a further acceleration of the downward process.

Recent economic data on the U.S. economy speak for themselves:

Despite all the well-known cosmetic efforts by U.S. statistics officials, the Commerce Department on Oct. 31 reported a 0.4% contraction of U.S. gross domestic product (GDP) during the third quarter. It was the worst quarterly GDP figure since the first quarter of 1991. The 0.4% GDP decline was just the "advance estimate" by the Commerce Department and the final figure will most likely show an even larger contraction.

Business investment in equipment and software dropped at a 11.8% annual rate (**Figure 2**).

Exports of goods and services declined 16.6% in the third quarter, while imports were down 15.2%.

Industrial Collapse And Unemployment

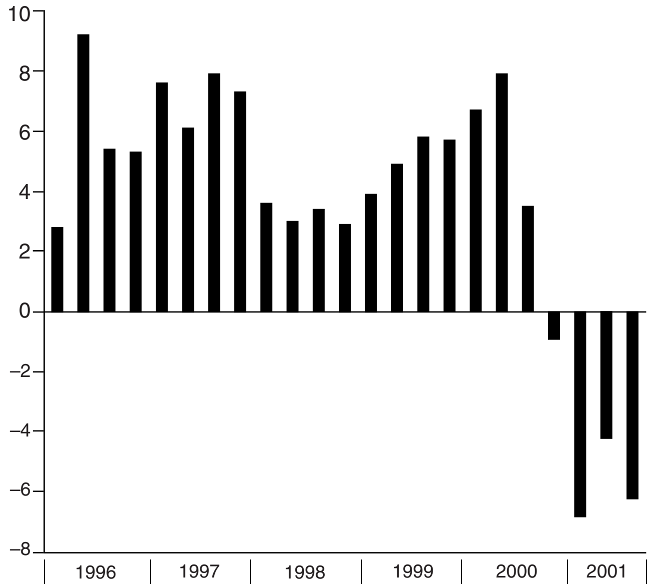
As the Federal Reserve reported on Oct. 16, U.S. industrial production fell in September for the 12th consecutive month (**Figure 3**), marking the longest contraction of U.S. industry since World War II!

At the same time, capacity utilization at U.S. industries is falling dramatically (**Figure 4**).

However, as new orders to companies continue to shrink, a further contraction of industrial output is already pre-programmed. According to the Commerce Department, new orders for manufactured durable goods in September decreased by 8.5% compared to August. For the first time in nine years, durable goods orders have fallen for four consecutive months. Compared to one year ago, durable goods orders are down 12.8%!

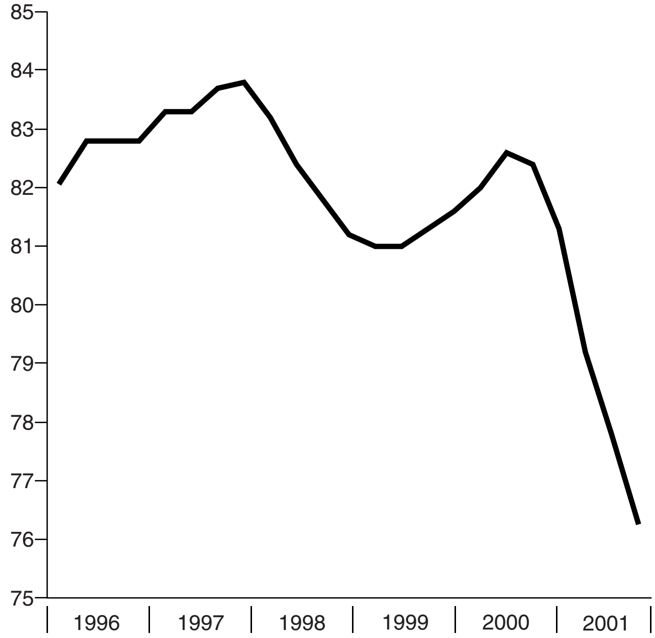
The 46.6% collapse of new orders for non-defense aircraft

FIGURE 3
U.S. Industrial Production
(Percent Annualized Change Compared To Previous Quarter)



Source: Federal Reserve.

FIGURE 4
Capacity Utilization, U.S. Industry
(Percent)



Source: Federal Reserve.

and parts was hardly a surprise after the Sept. 11 events. But the contraction of new orders for the automobile sector (–15.1%), machine building (–4.9%), and computers and electronics (–9.1%) cannot be attributed to the terror attacks. Meanwhile the implosion of the so-called "high-tech" sectors is continuing. On top of the dramatic declines within the last 12 months, new orders for telecom equipment in September fell by yet another 39.7% compared to the month before.

The National Association of Purchasing Managers (NAPM) on Nov. 1 released its October survey on manufacturing activity, showing the 15th consecutive month of declines. The index fell from 47.0 in September to 39.8 in October, where every figure below 50 corresponds to a contraction. The index has not been this low for a decade. *None of the 20 sectors surveyed by the NAPM reported any growth.* As Norbert Ore, the chairman of NAPM's Manufacturing Business Survey Committee emphasized, "*The declines in production and new orders are among the largest in the history of our report, which began in 1931.*"

The more production has collapsed, the more unemployment has grown. During September, the official number of unemployed reached 7.01 million. In the week ending Oct. 20, first-time jobless claims in the United States rose to 504,000. The four-week average of first-time jobless claims—505,000—was the highest in more than ten years. "Continued claims" for state jobless benefits in the week ending Oct. 13 rose to 3.65 million, the highest level in 18 years.

According to the Conference Board, the number of new jobs offered across the United States has fallen to the lowest level since February 1982.

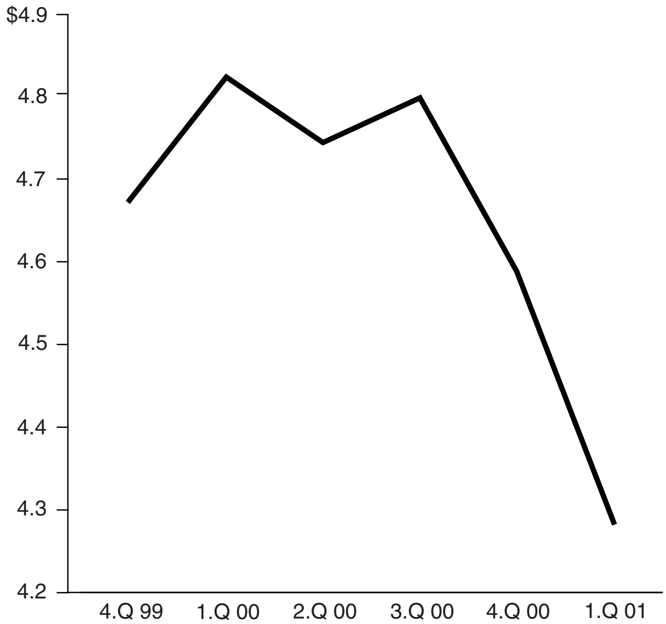
On Nov. 2, the Labor Department reported that the official U.S. unemployment rate in October reached 5.4%, the highest in five years, following the biggest round of layoffs in two decades. During the single month of October, 415,000 jobs had been eliminated, the highest monthly loss since May 1980.

The story is being told, that we can deal with a depression in the industrial sector, as long as consumption by private households—making up two-thirds of the GDP—can be maintained at present levels. However, the poor U.S. consumer, who according to this story has to rescue the U.S. economy, is now not only being affected by mass layoffs, but, at the same time, is now about to go under, due to his incredible indebtedness.

What makes matters worse, is the recent implosion of private households' stock market property. More than one-third of the paper value of their stock market holdings was wiped out between March 2000 and March 2001. Just in the fourth quarter 2000 and the first quarter 2001, the total value of U.S. pension funds shrank by more than one-tenth (**Figure 5**).

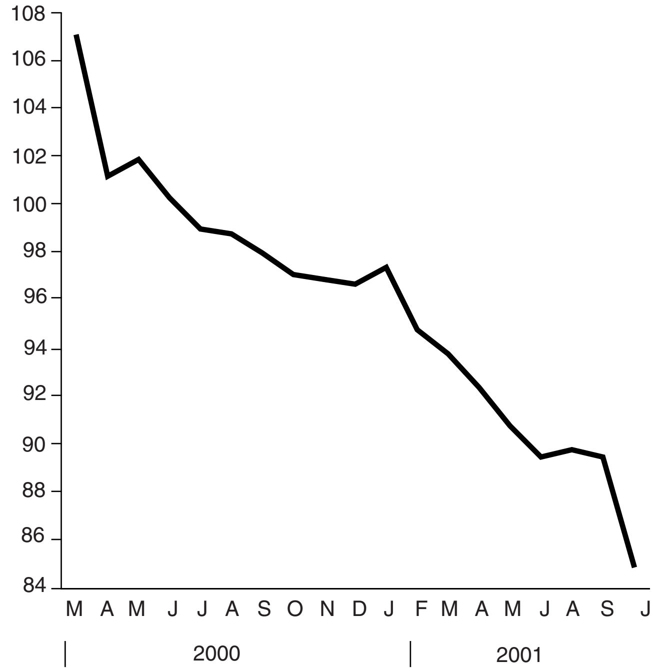
As the Commerce Department stated on Nov. 1, consumer

FIGURE 5
Property of U.S. Pension Funds
(Trillions $)



Source: Federal Reserve.

FIGURE 6
German Business Climate Index



Source: IFO Institute.

spending across the United States declined by 1.8% in September, much worse than Wall Street analysts had predicted. It was the steepest monthly fall in consumer spending since a similar decline 14 years ago. The last month showing a larger decline was May 1960; that is, four decades ago.

The consumer confidence index of the private economic research institute, the Conference Board, dropped from 97 in September to 85.5 in October.

Same Picture In Western Europe And Asia

A similar downward trend has become visible all over Europe and is being reflected by sharply deteriorating business confidence:

On Oct. 19, the Munich-based economic research institute, IFO, published the latest figures for its widely read business climate index. It fell from 89.5 in August to 85.0 in September, the lowest level since November 1993. The September drop of the index was the biggest in 28 years (**Figure 6**). On Oct. 22, the French IDSI institute published its survey, showing that executives of small French companies are now more pessimistic than at any time since 1997. In Italy, according to the ISAE research institute, confidence among Italian manufacturers plunged to the lowest level since August 1996. According to the latest survey by the Confederation of British Industry (CBI), British manufacturers in the last 21 years have never been as pessimistic about their export prospects as today.

Japan is already in depression. In its latest semi-annual report, the Bank of Japan forecast a shrinking economy not only during the present quarter, but for as long as the next two years. On Oct. 23, the Japanese Labor Department, after reporting record-high unemployment, spoke of an "emergency situation" in the Japanese labor market.

The collapse in demand for electronics goods by American companies is having repercussions all over East and Southeast Asia, in countries which had very much specialized in electronics exports to the United States, following the 1997-98 financial disruptions. In late October, South Korea, Malaysia, Singapore, and Taiwan all announced an outright collapse of their overall exports, in the range of 20% or more.

According to World Semiconductor Trade Statistics, global semiconductor sales this year will be down 32%, while, in the case of memory chips, sales will even drop by 61%.

The present global economic downturn is not a cyclical recession, that can be overcome by some rate cuts or stimulus packages. Due to decades of destruction of infrastructure and industry by "shareholder value" ideologies, and in particular due to the biggest financial imbalances in the history of mankind, the world will plunge into a deep depression, unless certain extraordinary measures are taken.

Lyndon H. LaRouche, Jr.

Sovereign Nations Must Put Collapsed Global Financial System Into Bankruptcy

The following address, "What Must Be Done About The Economic-Financial Meltdown?" was delivered by Lyndon LaRouche to the Berlin seminar, held by EIR *on Nov. 5, 2001.*

In my incarnation as a management consultant, which occupied most of my activities of the 1950s and the first half of the 1960s, I was often told explicitly, or implicitly, by clients: "Don't blame me, blame my accountant." The point is, the fellow would say, "I had always gone by our accounting department's analysis and forecast of our company's future, in guiding the way we invested in various ways; the way we allotted our resources to production, and other things. So blame my accountant."

Today, we have the same kind of pathology, of reliance upon accountants, in the form of general public opinion and government opinion, which obviously does not function. This is because the population, especially in the past 35 years, has more and more become economically insane.

In the former period, we used to think partly as accountants think, but partly as human beings think. As accountants, we thought about the figures we invented and put into invented forms called Accounting and Financial Reports. As human beings, we looked at the physical changes in the environment; and as economists, we looked at the changes in the conditions of production and distribution, in physical terms. And therefore we measured the physical performance of our accounting and financial systems.

In the middle of the 1960s, the world underwent a change: that, whereas in the period from 1945 to 1963, Western Europe and the Americas and Japan in particular, had prospered under a system which was by no means perfect or by no means fully just; but nonetheless, there was a net growth in per-capita physical product, in per-capita standard of living, in per-capita productivity, and the general productivity of industries. From about the time that coincides with the assassination of Kennedy, the ouster of Erhard, the ouster of Adenauer, the first assassination attacks on de Gaulle, and the introduction of the terrible Harold Wilson government in the United Kingdom, we have seen a consistent decline—not only in the physical standard of production.

Think, for example, of the case of Germany. Think of great industries; take, for example, AEG from the early 1960s. What is AEG today compared to what it was in the early 1960s? Think of famous firms which have disappeared, which were an integral part of what was called the German economic miracle of the post-war period. They have disappeared, or are looted. Great firms, which were once proud firms, and represented a high standard of technology and productivity and employment, now still exist, but they exist like the walking dead. They have lost their engineering capability, through outsourcing, through benchmarking and other forms of insanity which have destroyed the economy.

Insane Financial Policies

So over the period of the past 35 years, there have been a succession of changes in the way the world thinks about economy. And political parties, politicians and bankers, and so forth have played a key part in this, in telling people to "look at the figures—look at the financial figures." The reliance on finance and accounting to the detriment of considering and comparing physical results, has resulted in a condition that today in the United States, we have an insane man—and I say that advisedly, as Americans are permitted to say things about Americans that Europeans are not supposed to say, but I can tell the truth about the United States as an American political figure. We are insane! We have Greenspan, the Federal Reserve Chairman, who is not only abysmally immoral, personally, but insane.

We have an effort on the part of Greenspan and others to pump up the financial markets, the stock markets, and so forth, by the most wildly hyperinflationary methods seen since Germany in 1923. The businesses are collapsing, employment is collapsing, firms are being liquidated; and yet they don't pay any attention to that in the press reports or the propaganda; they talk about "Oh! The market is coming back"; while everything else is going. The physical economy is collapsing, infrastructure—all kinds of things are collapsing. And there is not much attention paid to it in the policy making circles.

Even in the case of the present Bush Administration, which since the developments of last Summer—not only the Sept. 11 events, but the events of Sept. 10, the day before—began to change its policy, to say that the government must intervene with a statist policy to revive the economy. Now, what the Bush Administration has done, will not work. Trying to get military producers to produce junk that doesn't func-

"We should recognize, therefore, that the problem is not *a problem of how to* fix *the present system, but how to* replace *it."*

tion, may keep the stockholders of those firms happy for a short period of time, but they are not producing any wealth. It's a swindle. Dumping hundreds of millions of dollars worth of bombs on a country which probably doesn't have hundreds of millions of dollars, as in Afghanistan, is not exactly the way to build a world economy.

But nonetheless, there is a change, a recognition of a change. But the change reflects the fact that the *present system doesn't work*. The problem today is that people are still blaming the accountants. Finance ministers, governments, and others are saying, "We must have a reform." What kind of reform? We must have a reform in various programs; we must have a pension reform; and all kinds of reforms. But they do not represent changes in the system, they don't represent any correction of errors which have been built into the system over 35 years.

Remember we had a period, from approximately 1945 to the middle of the 1960s, in which the Bretton Woods system—which was a gold-reserve-based, well-regulated system, a protectionist system—caused those who participated in the system, as nations, to improve the standard of living, to improve productivity and, generally, the perception of prosperity in the future. From the changes that occurred during the interval between 1964 and 1967—a trend of changes—we have gone downward. We went downwards since 1971; the floating exchange system has bankrupted the world. We have gone through subsequent changes; I will indicate a few of them, to indicate how this thing goes.

We should recognize, therefore, that the problem is *not* a problem of how to *fix* the present system, but how to *replace* it. We have more debt than can ever be paid under the present system. No one will ever get out of this debt under the present financial system. Let's look at world history and what I mean by a systemic approach, in these terms.

Changes To The Post-War System

Modern post-World War II history can be divided into several overlapping periods. Chiefly we have the period from 1945 to 1971, the period of the post-war Bretton Woods system, of a fixed exchange-rate based on, not a gold system, but a gold-reserve system. It was a production system well designed to meet the immediate needs of the post-war world for reconstruction of economies which had been shattered and depleted by depression and war. The focal point of this was, again, the credit of the United States, in extending U.S. credit as backing to extension of long-term and medium-term credit to Europe, for the reconstruction of Europe, and similar kinds of programs in other parts of the world.

This worked more or less well. The performance varied from nation to nation. Germany had a very successful venture in this direction. Germany was the most efficient of all the countries participating in this system, because the credit system and the industrial system was better. There was some attempt to imitate that in France under de Gaulle. But that was the situation.

So we went from a period which covered the old Bretton Woods system, which was also a system based on a peculiar arrangement of nuclear war and détente, between two nuclear superpower alliances, the Anglo-American and the Soviet. That part of the system continued until 1989-1991. But in the meantime, there was an overlapping change from a post-war Bretton Woods system based on a gold-reserve standard, to the floating exchange-rate system, which has been the principal cause of the global disaster we suffer today.

Then, in 1989-1991, there was another change. The Soviet power disappeared. At that point, an interest centered in London and New York City, a financier interest of a rentier quality—not a capitalist interest but a rentier financier interest, which controlled the world largely through control of financial markets, and the control of governments in the interest of financial markets—this system attempted to set up a world empire; an Anglo-American world empire modelled upon the precedent of medieval Venice. Venice from about the first phase of the fall of the Byzantine Empire—its first phase of fall, about 1,000 years ago—until the decline of Venice as a nation-state power at the end of the 17th Century.

In that period, Venice developed a system of control of most of European civilization and its periphery, as a financier power, as an imperial maritime power, through financial manipulation of the affairs of the nations involved. Venice collapsed after a last effort at imperial revival at the end of the 17th Century. But at that point, Venice and its methods were continued under the Dutch and British monarchy. That is, as identified specifically by William of Orange, the tyrant of London, and his designated successor, George I, and his followers in London.

George I was essentially an agent of the British East India Company, which was an extension of the policies of the Dutch East India Company of William of Orange.

So this interest, typified by Shelburne in the 18th Century, controlled most of Europe through a certain kind of relationship to its Hapsburg competitor in Spain and Austro-Hungary.

The Republican Nation-State

Under these conditions, the United States emerged, with the support and backing from Europe, as the attempt to create a modern nation-state as an alternative to this system of relations between the Anglo-Dutch-Venetian style monarchies and the Habsburgs. We went through a process which continued until the victory of the United States in 1861-76, Lincoln's victory over the British and over the Confederacy, immediately the British puppet, which made a change in the world economy. You can see, in the 1861-1877 period, a change in the policies of Europe.

Now, Europe never developed—except for one experiment by Charles de Gaulle in one phase of the Fifth Republic—a true republican nation-state form of any durability. What existed in Europe were reforms of essentially a feudal system, a parliamentary system, of parliamentary governments which became somewhat democratized in the sense that the interest of the general welfare was a pressure upon the state apparatus of the regular state and also of governments. This was the improvement.

But these improvements were adopted in Europe especially after the victory of the United States over the British, as well as the Confederacy, in 1861-1876. The emergence of the United States as the leading world agro-industrial power, over this period, caused a change in 1877 in the economic policies of Germany under Bismarck, the famous industrial explosion in Germany. It caused changes in Russia, notably, in the policies of Mendeleyev, who was at the 1876 American Centennial Celebration and who, with the Tsar's agreement, launched the building of what became the Trans-Siberian Railroad and large industrial projects. There were other things: Japan—Japan was reorganized by the United States by Henry C. Carey, the then aging leading U.S. economist, an adviser of Lincoln. The advice of Carey was crucial—he was in Germany in 1879—in the influence, through those circles in Germany, of introducing the Carey conception, or the, as it is otherwise called, Friedrich List conception, into Germany.

In the case of Japan, Carey sent his personal student, E. Peshine Smith, as the adviser to Japan who started the industrial transformation of Japan. So, you had developing across Eurasia, and in other parts of the world, the American system of political economy typified by names such as Carey and Friedrich List.

In 1901, with the assassination of McKinley, that changed, for the worse. The changes had already begun by about 1892, in France and elsewhere, around the Dreyfus case, and other things. But in 1901, the assassination of the last pro-patriotic President of a series—William McKinley was assassinated by assets of the Theodore Roosevelt family—caused Theodore Roosevelt to become President, and a fundamental change was made in U.S. policy and U.S. relations to Europe.

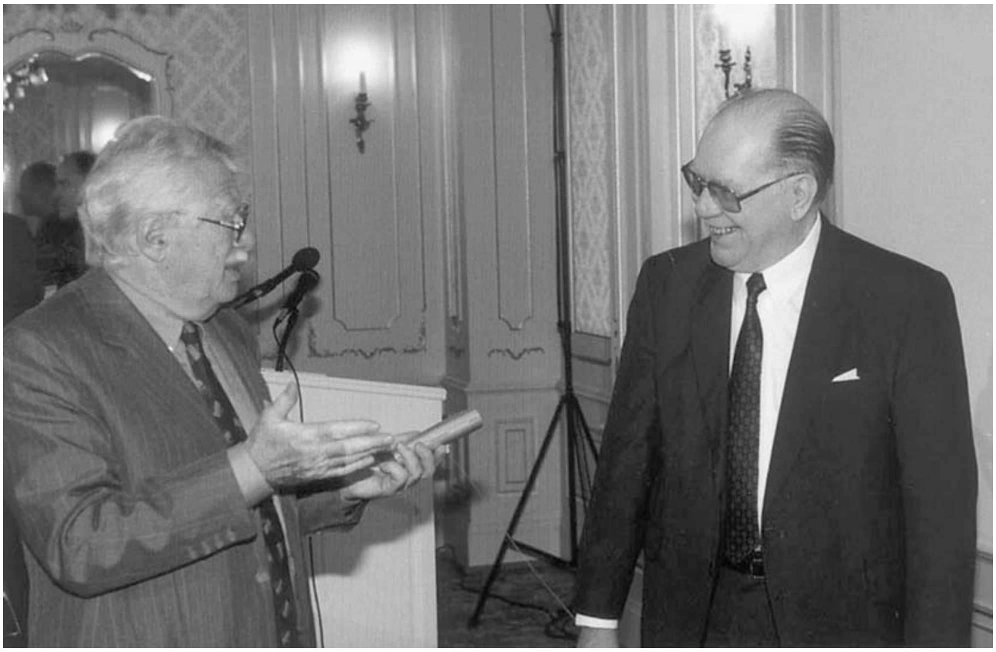
Prior to that, under all patriotic Presidents, and patriotic currents in the United States, the chief foreign partners of the United States had been—since the time of the American Revolution—influences in Germany, and especially the Classical circles; influences in Russia, which had been part of the League of Armed Neutrality; and, Japan had also become an asset of the United States against the British interests. And the United States was in opposition to the Anglo-Dutch interests internationally.

This continued despite other changes until 1901 and the assassination of McKinley, at which point the United States entered into a new system of relations. It broke its attachment to the Russia of Witte and of Mendeleyev; it broke its attachment to Germany; and became an integral part of an international maritime alliance, the so-called transatlantic alliance, between the British monarchy and the United States. And with the Dutch monarchy added in as part of the pattern.

So therefore, except for the Franklin Roosevelt period, from 1933 through 1945—except for that period, the United States has been a part of an Anglo-American world financier maritime imperial power.

The Failures Of 1989

What happened, therefore, in 1989—at a point where I, in 1988, had proposed here in Berlin, the imminent collapse



LaRouche with Dr. Wilhelm Hankel, from Germany's celebrated post-war reconstruction bank: "Think of famous firms which have disappeared, which were an integral part of what was called the German economic miracle. . . ."

of the Soviet system, and the imminent reunification of Germany, and the imminent designation of Berlin to be again the capital of Germany, and had proposed a system of cooperation to take up the slack left by the bankruptcy of the Comecon system, for a general Eurasian revival of economy based on new ideas in cooperation, based around things like food, transportation, and so forth—that was not done. That was proposed by the last effective banker of Germany, Alfred Herrhausen, who had intended to make that proposal to a New York conference which he planned to address but could not, because he was assassinated in the meantime. Since that time, there has been no policy, generally, in the United States, or Europe, in that direction.

What happened was: Under the initiative of the British and with the support of Mitterrand and the consent of Bush, it was agreed (under Bush's pressure, acting under pressure from the U.S. ambassador to Germany, Vernon Walters; Vernon Walters said to Bush in effect, don't be an idiot, let Germany be reunified, otherwise you'll cause a crisis). So, Germany was reunified, with the consent of President Bush, despite the strong objections and hatred of Germany by Margaret Thatcher and by François Mitterrand. But, the conditions that were imposed upon not only Germany, but on relations of Germany with other countries, such as those of Eastern Europe and Russia, was such as to ensure, not the great economic revival which could have occurred at that point, but instead, a vast destruction of resources, such that—apart from the improvements in some of the public infrastructure, entertainment centers, housing, and more freedom in the eastern part of Germany—there has been no significant gain, economically, by the populations of the former Comecon sector to this date. In general, it has been a ruinous state, far worse than these people had experienced under the Soviet rule, at the concluding phase.

So we have entered the phase 1989-91 of the Thatcher-Mitterrand-Bush-dictated conditions upon continental Eurasia, terms dictated in order to establish and consolidate an Anglo-American world empire of a form called globalization. The elimination of the nation-state as an institution, and its replacement by global institutions controlled through financier syndicates which would loot the world according to their pleasure.

Now we have come to the point that that system, that post-1989 globalized system, as an aggravation of the disease called the floating exchange-rate system, has now combined its effects to bring the entire world to a point of disaster.

System That Worked Was Abandoned

Obviously to us, the first reaction must be, looking at this period as a whole, the past three centuries, or more, of European-Eurasian history, looking more narrowly at the picture of the 20th-Century disaster—this geopolitical disaster called World War I and its succession, World War II, and other geopolitical disasters orchestrated in the same way: We must say, that in the more recent period, since 1945, what we had for the first 15 years following the close of war was a fixed exchange-rate system, which worked, with all its shortcomings, and errors, and follies. [But rather than maintain] . . . that system, in the middle of the 1960s, we replaced it with what became, in 1971, the floating exchange-rate system: which was based not on economic interest—not the economic interest of the nations, that is, the physical-economic interest of the nations—but rather, on a financier interest, which said, "We come first, and you get the leftovers that drop from the table, if there are any."

This system underwent a series of changes—successive changes. The worst was under President Carter—deregulation, which caused more damage to the U.S. economy in four years, than all Presidencies since. Then we had globalization; in 1989-91, began the process of globalization, which accelerated this process.

We have now come to the point that the floating exchange-rate system, the globalized system, is finished. Any attempt to provide a solution, remedies, improvements, reforms, in the system, which does not go back to 1965 and earlier, to reverse most of the leading policy changes introduced by governments and international institutions in that period, would be a catastrophic mistake, would ensure disaster.

The key to this problem is twofold. First of all, we have a very simple problem. We have a bankruptcy of a financial system. The financial system is hopelessly bankrupt. There is no reform, no negotiation, which can keep the values, the present financial values outstanding, intact. There must be a consent to a general reduction, of a very large percentile of most of what are considered financial assets today: stock-market values, financial claims, mortgage claims, and so forth. Simply to forget them, because they could never be paid under the present system.

Is it not fraud, to take credit from governments and others, to try to continue a bankrupt investment, in shareholder values which are not collectible? Is it not a fraud, to pretend that Argentina can be bailed out, by saving the present obligations imposed upon Argentina? Is this not true in other parts of the world? These are hopelessly bankrupt situations. You have to decide whether you are going to try to *pretend* to save the system, which you can't, because you can not get milk by killing the cow. The cow must be fed, otherwise it doesn't produce milk. You kill the cow: no more milk from that cow. Therefore, you can not kill the cows, called the nations that produce the milk, on which these financial interests depend.

Therefore, we are in a state, where the financial system is *bankrupt*. Therefore, governments must declare the financial system *bankrupt,* and use the sovereign authority of governments, individually and as combinations of sovereign entities, to reorganize the system in bankruptcy. It's what we did at the end of World War II. We reorganized the world in bankruptcy. The United States had the power to do it, and therefore, we did it. And we've now come to the point where we have to do it again.

No Economy Without The Nation-State

But, there's a second aspect to this, apart from cancelling the accounting system, and starting a new one, based on the best precedents from the past. The second thing is: We must understand the significance of the *sovereign nation-state*. The greatest danger to Europe and other parts of the world now, is the destruction of the *sovereign nation-state*. The greatest danger to any economy. No economy can work in Eurasia, unless it is based on a sovereign nation-state, as the sovereign authority over its national credit, over its banking system, and over its trade policies.

Why?

The function of the nation-state has been twofold: The nation-state, which was first founded in France, and then later in England—in France under Louis XI, and in England under Henry VII—was the first form of society which established modern society: a state which was absolutely sovereign, and which was not controlled by some interest, such as a feudal interest, or financier interest, but a state which was accountable to what was called the general welfare, or common good of the entire people. Therefore, the state became a personality, embodying the personality of the nation. And, as a personality, was responsible to the entirety of the population, to its past heritage, and to its future opportunities, to that people. *It must serve the common good. It must promote the general welfare.*

This kind of state, which is sovereign, had the power to create *credit,* as Louis XI did, in a limited way, in France. To create credit, public credit, against what? Not against existing money. Not against existing physical assets, but against *future* assets, yet to be created. Public credit. This public credit must be created with foresight into the general welfare. You can not create credit without anticipating the production of wealth, which will secure the credit issued as debt. Only the nation-state can do that.

For example, in the case of the United States Constitution: What we do under the Federal Reserve System is totally unconstitutional. The Constitutional provision has never been repealed, and therefore, the Federal Reserve System is an outlaw; it's illegal, under Constitutional law. The provision of the U.S. Constitution is, that the only person, that can issue money is the President of the United States, through the Treasury, with the consent of Congress. That the issuance—the power to create money, of the state, becomes the basis for national banking. So, state credit is used to provide the *margin of increase* over private credit resources, to ensure a general growth for national purposes.

Now, in the case, now, of Europe, of the United States, of Russia, and elsewhere: There's no possibility that on the basis of the present flows of production, that Europe could survive. Europe is now producing below breakeven. If the infrastructure, which is being used up, were to be maintained, if the essential industries which we depend upon today were allowed to be decayed, were not maintained, if the maintenance of the general infrastructure were not extended, there's not a possibility that Germany, France, Italy, etc., could survive as economies. The money does not exist, in the form of money-capital, to bring these economies out of this desperate, hopeless state. Only the nation-state can create credit, and apply that credit to such uses as large-scale needed infrastructure, and to other special projects, to extension of credit, on the long-term to medium-term trade, to former customers, or future customers, such as China, India, Russia, and so forth. This is the only hope for Western Europe.

For example, Germany today: Its only future lies, in terms of trade, on the trade relations which are improving with China and Russia. In every other part of the world, Germany is going down, in losing its markets. This will increase. This is the condition of all of Europe; of Italy, of France, so forth. The markets in Eastern Europe and Asia are the primary hope of survival, and even continued existence of these European nations. These nations are not rich nations. They're poor nations, which desperately need technology to enable the poorest part of their population to raise their standard of productivity in the future. This is to speak of 25-year investments, or 10-year investments, and corresponding amounts of credit.

Put The System Into Bankruptcy

Therefore, somebody must create the credit on long term, credit secured by states, and by agreements among states, and used according to policies among states, to create a secure line of credit, of public credit, at between 1 and 2% simple-interest lending rate, over periods of up to a quarter of a century, or a generation. Under those conditions, using the lessons we should have learned from the post-war reconstruction in the Americas and Europe, in particular, from 1945 to the middle of the 1960s, *we could do well!* The opportunities in Eurasia are tremendous. The market potential on a 25-year future prospect is tremendous. The building of railroads, of new types of railroads, of transportation systems, of power systems, of transforming an area which contains some of the richest supply of mineral natural resources in the world, in Central and North Asia. These are areas that can be productively developed for the benefit of Eurasia as a whole. These are the future markets. This is where the future lies!

Only by changing the system, to put the present system into financial bankruptcy, to reestablish the principle of the sovereign nation-state, to reestablish the principle of scientific and technological progress, and to create systems of credit and finance, looking a generation ahead, backed by nation-to-nation state agreements, to make this work, in creating mass employment, to absorb the mass unemployment growing today, in productive ways. To create thus, around this, the concept of doing this, as a new system, and use accounting, and use money, not as an absolute standard for the economy, but as a *tool,* to assist in the administration and conduct of private relations among entities within the economy.

That change in system, that change in thinking about mankind and systems, is the key to the future. Therefore, we must stop thinking about how to fix a financial system in terms acceptable to that financial system. We must stop thinking about globalization. We must reverse globalization *immediately,* as a price of survival. You don't want to reverse globalization? Then, tell me when you intend to die! Because, with globalization, you will die. Nations will die, and people within them. It must be reversed, back to a nation-state.

So, think of the world in terms of *systems,* long-term systems, based on axiomatic qualities of assumptions by peoples and governments, respecting their internal affairs, and their relations. Return to a *physical standard* of performance. The welfare of the individual personality, the future of those personalities' children, the future of that nation, in those terms. That is what the best that modern European civilization has produced as a standard. Return to it, and take the freak-shows which have dominated the world for more than a century, since 1901, since the assassination of McKinley, and put these things aside, and say: *These were mistakes.* These *ideas* were mistakes. We must learn the lessons of history, and design *now,* with the governments we have (which are not too good, I admit), with the people we have, who are not well-educated; with all those other things—*we must survive.* Our children and grandchildren must survive. Our nations must survive. Put that foremost.

You learn the lessons of history, of centuries. The human race has probably been on this planet for 2 million years, or more. We know a little bit about prehistoric existence in crucial things. We have known much about the historical period; not enough, but much. Learn to think of humanity as something very ancient in its origin, and think of humanity in what we hope will be a much longer future than an antiquity. *Think in terms of history!* Look at what we're doing today as a system, from the standpoint of historical criticism. That's what we need to do. All the other criticism doesn't amount to anything, because it does not address the problem.

Prof. Dr. William Hankel

Today's Crisis Is More Dangerous Than 1930s

Dr. Hankel is a professor of economics at Frankfurt University, Germany, and a former board member at the Kreditanstalt für Wiederaufbau and president of the Hessische Landesbank. The following speech, entitled "A New Bretton Woods: Milestones Along The Way To International Monetary Law," was delivered to the EIR *conference in Berlin, on Nov. 5. It has been translated from German by* EIR. *Subheads have been added.*

1. The vulnerability of the West's financial system to crises of confidence, has been manifest not just since Sept. 11. That "black Tuesday" made clear to economic laymen, like a sud-

Prof. Dr. Wilhelm Hankel of Bonn, formerly chief economist of the Kreditanstalt für Wiederaufbau (Germany's Reconstruction Finance Agency) and President of the Hessen State Bank, followed LaRouche with definite proposals for urgent international monetary reorganization.

den spell of chills, what the 25-year-old globalized world economy suffers from: a progressively developing weakness of its immune system, respecting its transnational monetary system. There are national monetary systems and, now, as a replacement in Europe, a combined, European monetary order, made up of 12, soon to be twice as many currencies. But there is no global, worldwide order. And yet, this is more indispensable than ever. For, what was called, up until the 19th Century, "world economy," was, compared to today, a negligible quantity. It was limited trade, based on few, exotic, expensive luxury and precious goods. It did not affect the domestic economies of the countries involved and their political economies. Nor did the payment for this import-export trade present a serious problem for the financial markets: One paid in stateless ("denationalized") money, namely, in gold, or in a gold-backed currency: pound-sterling; earlier, Dutch gulden, Spanish doubloons, gold ducats from Venice, Genoa, or Pisa. One either had this money, or had credit in one of these currencies, or one did not; in the latter case, the transaction did not take place.

Since the financial markets at that time were small, transparent, and linked to concrete business or projects (real objects), and since the currencies used were related to each other through legally binding exchange rates—the currencies at that time were only a national name for a certain amount of gold (in some cases, silver as well), established through national coinage laws—there was no need for either international or supra-national agreements on exchange rates, or for fixed rules of credit, international payment, and capital transfer, or international stabilization programs. One could handle matters without the IMF [International Monetary Fund], the World Bank, the G-7 [Group of Seven] or G-8 summits, and without international speculative crises. Speculation, if at all, occurred only in the third or fourth digit after the point, in the legally fixed exchange rates. The currency turnover remained within strict limits, through real transactions (trade, investments) and the credit-worthiness of the debtors. The infrequent financial crises broke out because of political crises (wars, revolutions), and not, as it is today, vice versa: that wars break out because of financial crises.

The Value Of Gold

The world has never had such a dependable and crisis-proof international monetary system, as the gold standard of the old school. Its stability did not depend on the metal, as superstition, then and now, believed. That was already a false conclusion, because gold did not bring its value into the monetary system, but rather the value of gold is derived from the actually unlimited demand by central banks for gold, for their monetary requirements: Its value came from the market, not from nature. What made the gold standard calculable and crisis-proof, was the state guarantee of exchange rates which resulted from the upholding of the coinage laws, although these coins did not play a role in daily life or in international credit. From this old-fashioned, and strongly national minting guarantee for money that had a limited circulation, a world monetary system emerged which was acceptable to all participants, highly democratic and egalitarian. It did not rest on the power, good will, or caprice of a monetary world hegemon, but on the logic of Euclid: If all currencies are equal in reference to a third—here, gold—then they are also equal among themselves.

Only one other condition had to be given, for the system to function: a gold price which was binding for all participants—since only then would the national gold parities remain comparable and exchangeable. The Bank of England fixed and took care of this gold price for over a century (1819 to 1914). Thereby it made the pound-sterling into the international currency of the world: into a kind of gold surrogate, but not gold itself.

In this system, everything could fluctuate: the prices of goods and stocks. There was only one that could not: the price of currencies and their values, the exchange rate. Their prices did not follow any speculation of market changes. They were protected by law, through the standard of coinage and gold parity. They were like meters, kilograms, or the DIN [Deutsches Institut für Normung] norms, an officially defined and estimated relation: a unity of measure or mass, whose value and endurance everyone could depend on.

The Lesson Of The Great Depression

2. As is known, this system, following its restoration after the end of the First World War, did not fall apart by itself, but through external interventions and errors. The states of the inter-war years played foul and violated its rules, and there was no non-partisan who disciplined it or punished it with penalties. The main and fatal violation was the (initially) unlimited level of reparations imposed on Germany and others defeated in the war; the second was the continuing gold hoarding policy of the U.S.A.; and the third was England's return to the pound parity of the pre-war period (1926). The harshly criticized reparations, which Keynes called "Carthaginian," drove Germany and Austria into a politically motivated foreign indebtedness with the U.S.A. creditor, which in turn made the debt-servicing more difficult, through its deflationary policy for its debtors. When, then, England significantly exacerbated its domestic depression, through its pound revaluation (also given a thrashing by Keynes), the only choice was between accepting unemployment at home, or breaking out of (what many saw as) the prison of the gold standard. Like Sept. 11, 2001, the "Black Friday" of Oct. 29, 1929 was only the *Menetekel* on the wall, which pointed to a depression which was already there.

3. The lesson of the collapse of the gold standard, "Black Friday," and the Great Depression which dragged on until the outbreak of World War II (it was only with great care painted over in the U.S.A. through Roosevelt's "New Deal," and in Nazi Germany through rearmament and war preparations), was that one needed a new synthesis, to combine national, successful conjunctural, and employment policy, with world economic cooperation and stability. For, what use was full employment at home, for national economies of the world, if it had to be bought with the renunciation of real income, or, worse, of individual freedom in one's own country, as in Nazi Germany?

Keynes saw the problem early, but could not solve it in his epoch-making *General Theory*. His economic and monetary nationalism, at the time, secured through flexible exchange rates, barely functioned in a big domestic economy, like that of the U.S.A., which is why Roosevelt was successful with his "New Deal." But for small, open, foreign trade-dependent economies, like those of England or Germany, which were involuntarily closed, it brought, in the best case, a temporary emergency solution: England was dependent on exports, Germany, on imports. Hitler misguided Germany's notorious currency and raw materials scarcity (in his lexicon, the scarcity of *Lebensraum*) to insane projects like autarky and conquest (annexation) of increasing zones of *Lebensraum*. He, and his advisers, did not see that the lack of outside resources was dependent on the system, not on territory. The later Federal Republic of Germany, which was smaller than Greater Germany by two-thirds, earned easily what Hitler thought had to be won by force.

Correcting Two Errors Of The 1930s

4. It was first in his "Proposals" for the later Bretton Woods conference (of 1944) that Keynes succeeded in expanding his *General Theory* through its world economic expansion. He corrected two errors of the 1930s (and also his own!):

First, flexible exchange rates do allow for defense against "imported depression," but they fight against external deflation by increasing the internal inflationary potential (through cheap money and growing state debt). Therefore there is no alternative, in an open (global) system, to fixed, dependable, almost metrical exchange rates, *à la* a gold standard. They alone provide discipline against homemade inflationary practices. Only in extreme cases ("fundamental imbalances"), may they be given up or altered.

Second, if exchange and interest rates fail as instruments of extreme current account balancing, the international credit and capital flow component must be strengthened. If the U.S.A. had functioned after 1929 as world creditor and world banker, the crisis would not have occurred. Only, no national state will—and can—play the world banker for long, with its own national currency. Therefore, in order to protect and refinance the national money and central bank systems, a "stateless" world central bank, with a stateless currency unit, proper to the system, will be required: a replacement for gold, without circulating bank notes or coins, limited to central bank credits. Keynes baptized it as "bancor."

Bretton Woods, in the original form Keynes envisioned, did not consider the U.S.A. as a world central bank, nor did it consider the dollar as a means of "last liquidity" or "bancor" replacement. But this is precisely what happened at the Bretton Woods conference of 1944. This development was facilitated (and legitimated) through the exodus of the Soviet Union and its satellite states at the time, the final division of the world (economy), and the Cold War. However, the extremely watered-down Bretton Woods system (watered down through the role of the U.S.A. as quasi world central bank and of the dollar as bancor replacement) did work for almost a quarter-century (until 1971-73). For all world trading nations, including in the Third World, that was a golden age, compared to today. There were high, export-led growth rates, and currency crises only at the periphery, not in the center of events. However, the old Bretton Woods was a highly fragile construct: a dollar standard imitating the gold standard, in which coincidental gold findings were replaced first by generous dollar credits (Marshall Plan, development and military aid), and then increasingly through growing (and undesired) U.S. current account deficits (U.S. dollar outflows). Beginning at the end of the 1960s, the U.S.A. as world (central) banker appeared to be overextended, especially through the Vietnam War: Its increasing debts in its own currency were no longer valued equally. The U.S. dollar, no longer desired, went through devaluations, because of market and inherent dynamics. Instead of being strong as a currency, the leading currency got weaker and weaker. The readiness of dollar users to support their leading and reserve currency, sank to zero by increasing numbers of partners. The all-powerful world banker of yesterday went bankrupt, since that is precisely what the rejection of the U.S. dollar as gold replacement, or ersatz bancor, meant.

The world money economy needs a constitution, which is equally binding for all global players. No one should be allowed to do more than the other or the smaller!

A Lawless World Economy

5. Since 1973, we have been living in a lawless world (economy) similar to the one after 1931—but with two noteworthy differences:

• The volume of the economic turnover to be financed has exploded. Everything has increased: real world trade, direct and portfolio investments. Most of all, the volume of really uncovered, speculative transactions has grown: currency exchange, both for risk protection and for profit-making on and with risk. Billions in financial turnover, have long since become trillions, whereas only 2-3% goes into financing of real transactions.

• With the volume and weight of global financial markets, the influence of state actors (IMF, central banks), and their ability to control the climate and course of financial markets for their currencies, has shrunk dramatically. Exchange rates and interest rates are no longer policy-determined instruments, but are prices established by market expectations. Just how limited the chances to influence the markets are, which the controlling protagonists themselves admit, could be observed after Sept. 11, 2001. The 2001 annual meeting of the IMF, the World Bank, and central banks was cancelled on short notice, without having to fear any negative effects. In this point, too, "Black Friday" established clarity.

Both differences are serious. With the separation of financial turnover from the exchange of goods, the danger of a crash grows in almost incalculable dimensions. With the disappearance of control mechanisms against market collapse, the chances of avoiding a crash and its consequences for national systems, fall practically to zero. The (global and anonymous) markets rule over (national) policy—not the other way around. And, as was the case more than 70 years ago, there is the danger of deflation throughout the world economy. The global, particularly densely and intensely interconnected Western industrial nations, are condemned to import it. Initial indications show, that it has already begun to spread. Especially in the new service industries, the pressure of world competition is greater than the productivity gains, whereby the costs can no longer be fully transferred to customers. In addition, there is the fact that it is no longer possible to return to national isolated fortresses of domestic markets. World economic interconnections have become too intensive and irreversible for all partners, for them to bring them back. In contrast to the 1930s, this time there is the danger not only of the collapse of import and export products, but of the entire chain of production and value creation. The drop, back then, of 30% in real income in single economies, could be easily recovered from. And, today, it would hit a socially more demanding and therefore politically less stable and patient population and electorate, in all Western societies.

Solution Lies On The Global Level

6. What, then, is to be done? The threatening dangers, emerging from the globalization of financial markets, of first a financial, then real economic, and finally a political systemic crisis, ending in a meltdown, can be prevented only on a global scale, not on a national (the error of U.S. Republicans) or on a regional level (the error of the Europeans and other integrationists). When money (on grounds other than monetary ones) becomes a ubiquitous world trade article, then monetary world trade must be organized and regulated in a new way. This is the only way to free it from the capriciousness of a state hegemon (U.S.A.) or the anonymous gang of powerful private interests and profit hunters. The world money economy needs a constitution, which is equally binding for all

global players. No one should be allowed to do more than the other or the smaller!

The reference point for such a regime is, and remains, the Bretton Woods concept in its original Keynesian form of 1944. The U.S.A. must be convinced that it is not, and cannot be the world central banker, but the IMF, independent from it, is. The IMF is, or should be, built up, from a fund dependent on refinancing, into a central bank which creates its liquidity on its own, whereby their credit money—by then, not the bancor but the SDR [special drawing right]—represents not the currencies of the nations, but rather their internal and settlement money in international central bank transactions. The SDRs do not replace national money, as does the euro. They simply make it internationally accountable, stable in exchange rates, and convertible, like the money of earlier national currencies. Only that in this SDR standard, the national currency institutions (central banks) and currencies are maintained, and with them a large part of national state currency autonomy. One would thus maintain a far-reaching, albeit not total freedom in national conjunctural, employment, and structural policy, which would allow nation-states to fulfill the expectations of their citizens for stable jobs and adequate incomes.

The world central bank is no enemy of national democracies, like, for example, the European Central Bank, which, with the euro and common exchange rates and interest rate policies, no longer allows for economic, monetary, and financial policies oriented to national needs.

With this world monetary reform, one would avoid from top to toe, the central, morally contradictory errors of the current dollar standard, whereby a country can go into debt without limits, and communicate to the rest of the world the fate of inflation and deflation. While it demands freedom and surplus for itself, it asks others to adapt to the U.S.-steered world inflation or deflation! One would avoid the errors of the Europeans, who believe they can confront the dangers of globalization with a common currency, and do not see, that their integration is nothing but another word for their own, homemade globalization: for an unlimited domestic market and an unlimited common currency, which endangers their industrial capabilities, threatens their historically developed social state, pulls their labor markets out from the supervision of social lawmakers and trade unions, and, instead of leading Europe into the future, throws it back into the horse-and-buggy era, as the gold standard forbade every active fight against depression, as well as structural and employment policy. With a Bretton Woods system revised in this way, the world (economy) would take a huge step forward in the direction of reliability of its global markets, as well as its national political structures. It would be a milestone along the long way from Kant's "Perpetual Peace" to "world citizens' intention" (1795). The New Bretton Woods would bring about what has been called for in vain for more than 200 years: international monetary law. It would eliminate the weeds that have existed on the money and financial markets since 1973, and would pull out of globalization, the poisonous tooth of incalculability and spreading crisis. It would be an attempt to become smarter, without incurring damage, and only using insight and enlightenment.

Dr. T.I. Koryagina

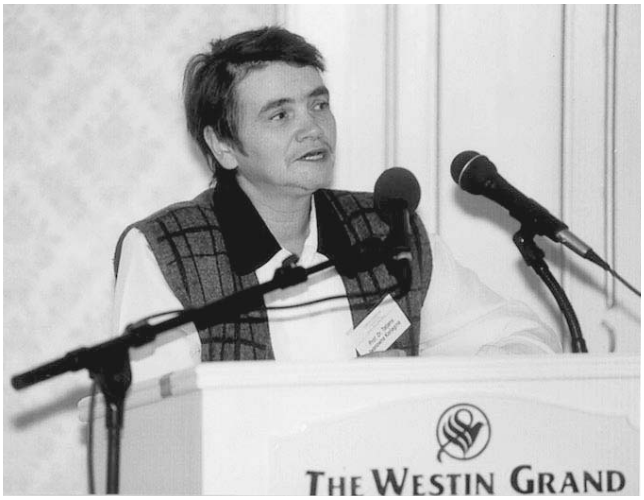
The World Economic And Financial Crisis, Before And After Sept. 11, 2001

Dr. Tatyana Koryagina is a Doctor of Economic Sciences and an economist at the Institute for Macroeconomic Research of the Russian Ministry of Economics and Trade Development. The following presentation was prepared for the EIR *seminar in Berlin, on Nov. 5, at which she delivered excerpts orally. Subheads have been added.*

Our seminar today is devoted to a problem, which has been of ongoing concern to the specialists, associated with *EIR* and Lyndon LaRouche. It was Lyndon LaRouche, who first, and in a very polemical form, forecast that the collapse of the world economic and financial system was imminent. He also proposed a system of measures to overcome the negative consequences of this economic and financial apocalypse, including through the establishment of a New Bretton Woods order.

For Russia, there was a milestone in the analysis of the world economic and financial crisis, with the Parliamentary hearings at the State Duma of the Russian Federation, which took place on June 29 of this year. Why were those Moscow discussions so important? In my view, the main result, achieved by the organizers of the hearings, was to breach the thick wall of silence, which has surrounded the real state of affairs in the world economy, and the U.S. economy in particular. The speeches and presentations, made from the rostrum of those Parliamentary hearings, sounded a stern warning about the onrushing planetary danger.

In my own testimony on that occasion, I specified a date for the beginning of the crash of the dollar and the U.S.A.—Aug. 19. The barrage of denials, which the liberal press threw against our forecast, showed that the forecast was a big threat to the people who promoted Russia's enslavement as a mindless supplier of natural resources to world markets, by the implementation of the liberal economic doctrine, and the total



Dr. Koryagina: The events of Sept. 11 were "an attempt to cut the Gordian knot of the world economic crisis, using the sword of terrorism."

dollarization of the Russian economy.

The financial collapse did not happen on Aug. 19; but, on Sept. 11, events of another order took place—terrorist events. The question arises: Were the events of Sept. 11 connected with the probable collapse of the world economic and financial system? In our view, there is a direct connection. The logic of how the New York and Washington terrorist acts themselves were organized and—most important—the logic of the subsequent steps taken by the highest political circles in America and Great Britain, indicates that this was an attempt to cut the Gordian knot of the world economic crisis, using the sword of terrorism. The symptoms of crisis in the American economy, which had been artificially aggravated, now acquired a "natural" explanation: that the now generally recognized recession in the American economy was the result of the terrorist attacks on the United States, including biological terrorism. Accordingly, there was now no need to look for guilty parties among the political and economic establishment, but rather only to catch a few dozen Islamic terrorists, including bin Laden, and smash the terrorists' bases in Afghanistan.

No thinking people can be satisfied with such a simplistic approach. This is, after all, a question of the future of the planet. Upon what principles will the newly rearranged world political system be based, and on what patterns will the new economic and financial order be cut? These are the main questions to be answered.

We have been working for a long time, on modeling the development processes of the world economic crisis and the crisis of the Russian economy. In our methodology, we develop our model of these crisis events as if it were in three-dimensional space: a) a model of the development of the official world economic system; b) the development of the transnational shadow economy; c) analysis and modeling of the shadow political domain. In geopolitical research, the "shadow politics" component is called the conspirological element of the historical process.

A Neo-Malthusian Mega-Project

Conceptually, our general vision of the situation looks as follows.

First. The pumping of "hot money" into the world economy, sustained over several decades (first and foremost, by the U.S. Federal Reserve System's emission of dollars), irreversibly corroded the entire world credit, financial, and economic system. The sporadic local stock market and currency collapse crises in some areas of the world during the 1990s, and the national defaults, became the visible tip of the huge iceberg of the world financial bubble, and were menacing harbingers of a coming collapse of the dollar as the sole world unit of account.

Second. The painful expansion of the "dollar empire" and the victorious march of the liberal economic doctrine undermined the basis for development of the real sector of the economy, worldwide. The United States of America was no exception, in this regard. The country of "runaway shops and factories" has become increasingly vulnerable to the emergence of insurmountable political and economic risks, while the gradually developing U.S. economic recession, under these conditions, is but a pale shadow of a future new American Depression.

Third. Among the factors determining the natural course of a world economic crisis, a certain artificial component began to be more and more clearly discernible during the 1990s. A certain group of players on the world financial and currency markets almost invariably came out on the winning side. From the standpoint of theory, it can be understood that if the very same winning side is present under conditions of a future crisis (and any crisis, by definition, means chaos), then it is functioning as an element that regulates the crisis.

Fourth. An artificial component of the world economic crisis comes into play, whose purpose is not the extraction of historically relatively short-term superprofits. This is always merely a derivative benefit. In our view, the mega-project is, rather, planetary in nature, and its main point is the implementation of a concept of "retardation of development" (with which the world public, unfortunately, is scarcely acquainted), in the strategic time perspective of the entire 21st Century.

The fifth, and final point. Because it is secret, the developers of the mega-project would need be either some organizationally very powerful secret society, or some economic and financial corporation from among the organized criminal communities. In our analysis, we are more inclined to the hypothesis, that at the present stage of things, certain "mutagenic" shifts have occurred in the development of so-called secret societies. As a result of the worldwide process of globalization, some elite mystical and political order, which was initially regional in scale, has expanded to the point of becoming a world center of planetary governance, with an unbelievable concentration of political and economic power in its hands. Criminal finance and banking organizations (speculative finance capital) were the nucleus of this center, while the most important links in the chain of its activity are the narcotics trade, the illegal arms trade, the pornography and gaming businesses, and so forth. Non-traditional mystical religious teachings (sectarianism within the leading traditional world religions) serve as its ideological foundation, and neo-Malthusianism as the theoretical underpinning.

'Tidal Wave 21'

Proceeding from these basic conceptions of a vision of the world situation, a scenario was elaborated as a model of the center's behavior in the near future. We called this scenario "Tidal Wave 21."

One of the essential elements of this scenario, was the supposition that the crisis (which we presumed would be strictly financial and monetary in the initial stage) would be instantaneous: An acute crisis would unfold on the stock exchanges and currency markets in the course of a few days, with the main events occurring in the United States of America. The significance of a financial blow being struck against the U.S. economy, would be to achieve the maximum "effect" of weakening the world economy as a whole.

It is well known, that the U.S.A. is the main world consumer of goods and services. An abrupt contraction of consumption in the United States would "engulf" the economies of the majority of countries on all continents, under a huge wave. This would be followed by a grand collapse of the world economy, the consequences of which would be famine, cold, and the natural extinction of the population, as well as wars among nations, civil wars, and a sharp decline of the population of the planet, simply through physical annihilation. It is estimated that the world population could fall to 1.5-2 billion people, during the next 25-30 years, with no more than 150-200 million remaining in the countries where the so-called "golden billion" live today. The ratio [of the "golden billion" to the rest of the population] would change from 1:5, to something on the order of 1:10. In other words, instead of a situation of five poor and destitute people for every wealthy one in the world, there would be a ratio of ten people from the poor and destitute layers, for each wealthy person. There would be increased polarization between the conditions and quality of life in the countries with a developed market economy, and those in the Third World, with an increase of instability on the planet. But, at the same time, it would be possible to achieve a sharp reduction in the consumption of world energy and water resources, minerals, timber, and so forth. Is this game worth what it will cost to play?

An extremely important element of the neo-Malthusian center's strategy under this scenario would be the political "dividends." Economic destabilization will lead inevitably to destabilization in the political sphere, to changes in governments, and military conflicts. Under these circumstances, a strike against the United States assumes special significance. For it is precisely under conditions of an economic supercrisis, that the elimination of Americans' "excessive" freedoms will become possible, insofar as their broad range of democratic freedoms could encumber the center, under conditions of a sharp deterioration of the conditions and quality of life of the U.S. population. A steep financial and monetary collapse, after all, will bankrupt a great number of corporations, companies, banks, and investment and pension funds. The fear of job loss and loss of the means to exist are to be a good "whip" in the hands of the new rulers of the world, for purposes of establishing a totalitarian order, above all in the United States itself.

So, then, the financial and monetary collapse did not take place (or, has not yet taken place!), but New York sustained terrorist air strikes against the World Trade Center towers. Symbolically, their destruction means the collapse of the U.S. consumer market. But, at the same time, this act also crushed any hopes that American consumer demand would save the U.S. economy from a deepening recession. Fear will paralyze the Americans' will to shop, before the consumers even realize that their pockets are empty. Here, there is yet another nuance from the mystical side of things. The stock exchange is located nearby the trade towers in that area of Manhattan, and there were many stock exchange-related offices in the destroyed buildings. Therefore, the airliner disasters were closely linked, symbolically, with the crushing of the New York Stock Exchange and, thereby, of the old financial and monetary system, with its greatly weakened dollar. Looming ahead is the center's organization of a new world financial and monetary system. And here, in our view, there may be an option under which that self-same dollar, but in a renovated format (the "new dollar"), now becomes in earnest the sole means of payment in the world. In other words, a global "currency board" system is to be established under the new political conditions, managed by a single world reserve bank, not connected with the economic and financial agencies of the United Nations.

The 'New Monster'

One more point, on the center as a mutant, which diabolically unites the features of secret societies and the mafia, under contemporary conditions. It is a kind of criminal society, with a godfather who appears as the messenger of God on Earth. The mystical religious element plays the lead role in this symbiosis, shaping the global political goals of the society. The mafioso component makes it possible to carry out criminal economic activity, deriving flows from monetary and financial chicanery and looting, and criminal business, while organizing the seizure of productive capacities and entire sectors of the official economies of various countries. The unification of mysticism with criminality was also abetted by the fact that, in the second half of the 20th Century, transnational crime adopted the "organizational weapons" of secret societies: totally conspiratorial practices, a network form of organization, the unassailable authority of the leader, and the infiltration of operatives into the political, management, and information and propaganda elites, for the purpose of expanding economic and political influence, providing security, and so forth. As is done by secret societies, techniques such as blackmail, terror, and the manipulation of people through ideas, concepts, and religious inclinations, and so on and so forth, began to be applied widely. The secret societies, in turn, were "enriched" by the mafia's experience in creating their own regular armed forces. It presents no great difficulty for the "general staff" of this new monster to "hide" its secret army. There may be armed units of militants inside the "legal institutions," seemingly of independent origin, or even subunits disguised as anti-terror units within the national agencies of various countries in the world, and much more.

Thus, after the terrorist acts in the United States, the world today has encountered a more complex phenomenon than what religious extremism and fanaticism represent. More dangerous for mankind are these elements of cold calculation, cynicism, and cruelty, which are characteristic of highly educated individuals, who consider themselves the representatives of a super-race. Enamored of planning and organizing everything, and looking far ahead, they suppose, like demiurges, that their salvation lies in doing evil.

Overcoming The World Depression

Here is our forecast. The neo-Malthusian center will fan tensions, without any interruption. Evaluating the events of September when the trail was fresh, we expressed on the pages of the Russian press, the idea that there would necessarily have to be a second, significant blow against the U.S.A. In a sense, this would be a kick in the back of the already-collapsing American economy. Fanning the public's fears would paralyze the consumer market, once and for all, creating a second wave of crisis in the realm of finance and foreign trade, with the impulses of fear and uncertainty going off in various directions. Now, we have the news that there have been incidents of biological attack. "White powder" as a carrier of infection, is being discovered in countries on various continents (and the reports on these incidents are probably deliberately played up by the mass media). It has been said publicly, that there is a danger of biological weapons being used against 20 Russian cities. And, of course, a crack in the entire world geopolitical situation is to be expected from the "anti-terrorist" actions of U.S. and British armed forces in Afghanistan. Military victory is impossible, if the enemy has not been rigorously identified.

It is very important for the world public to understand at this time, that the crisis attacks on national economies must be countered, using whatever forces are available. Only an economic recovery can enable each country to make its contribution to preventing a Third World War, to the brink of which the organizers of the terrorist acts have brought the world.

In our view, an extremely important role in overcoming the world depression today belongs to two countries. They are Russia and China. Russia is a very important element, because of its boundless domestic market. China is, because it is a power that has maintained a superior ability to absorb foreign investment, and has achieved uninterrupted economic growth. Forming a "bridge" of world economic stability, Russia and China present a unique opportunity for Europe and the countries of the Asia-Pacific region to rise above the "American syndrome" of a crash.

For Russia itself, economic growth is completely within reach. But to achieve it, requires a fundamental correction in our economic policy, with an emphasis on the development of the real sector of the economy, an orientation toward strategic investment in specific manufactures, and a shift to sweeping de-dollarization of the Russian economy and strengthening of the international position of the ruble.

Dr. Nino Galloni

Link The Value Of Production To Money

Dr. Galloni is General Director of the Italian Labor Ministry and President of the Technical Committee of the Fund for Special Unemployment Compensation (Cassa Integrazione Guadagni Straordinaria), in Rome. The following greeting was conveyed to the EIR *seminar in Berlin, on Nov. 5. A subhead has been added.*

The recent, dramatic events of Sept. 11 in the United States, the Middle East conflict, and the war in Afghanistan, have been added to an international financial and economic situation which was already critical.

The elimination of most productive activity (especially in the manufacturing sector, in infrastructure and social services) because of the growing importance of financial speculation, places the world in front of a dilemma: to support the North American financial-political model, based on a currency, the dollar, which no longer has a realistic connection to the productive economy; or, to return to a more financially prudent model, which establishes a link between the value of production and that of money.

Prior to the political crisis initiated by the events of Sept. 11, the European Union (EU) had taken timid steps toward proposing to the world a model that was different from the dollar model. However, even this hypothesis—now, perhaps, faded, or at least, certainly, "suspended"—would not have been adequate for the required change, because of its obvious ambiguities in relation to the dollar.

A 'Gold-Exchange' Alternative

The alternative hypothesis, today only theoretical, may involve decoupling the euro from the dollar and linking it to gold (a return to the "gold-exchange standard," because the "gold standard" would require the agreement of all the currencies). But such a hypothesis, in order to be taken into consideration seriously, would require at least two supporting conditions: 1) the extension of the "gold-euro" arrangement to the gold-ruble arrangement, in such a way, it should be understood, that a single currency, and a single monetary zone, is formed; 2) bringing "Euro-Russia" closer to most of the countries of North Africa and the Middle East. Only if these conditions are met, will the alternative to the dollar be sufficiently strong and credible.

Even the proposals for resolutions, in this regard, presented recently at the European Parliament, though confined to a completely acceptable logic, do not clarify whether a new international financial regime should move to orient the EU to expand the area of its own currency, in order to make the proposed change more efficient and practical.

However, it should be remembered that any association of gold to currency, though presenting obvious advantages regarding financial equilibrium and certainty, generates limitations with regard to development, and may present a thrust toward increasing interest rates. (In fact, the rapidity of currency circulation does not depend on the value of production, but on the complex of monetary movements determined through the cycle of the product, from the purchase of raw materials to the final sale to the consumer.) For this reason, the relationship—relatively unbalanced—between the monetary base and endogenous money, which determines the cost of credit, is delicate.

Furthermore, if the "gold-exchange standard" were to be introduced, it would be necessary to monitor the possibility of an invasion of bad money, that is, the dollar, while good money would be hoarded (given also its function as a partial reserve, related to the system).

In any case, however, the economic-financial situation, which was close to collapse before Sept. 11, suggests the introduction of partial measures, or of more radical alternatives—like the return of the "gold-exchange standard" with the conditions mentioned earlier—in order to compensate for a situation which risks compromising the perspectives of balanced, peaceful development of productive activities.

J'Accuse: World Leaders Call London 'Terrorist Safe-Haven'

by Michele Steinberg

The following dossier, entitled "Put Britain On The List Of States Sponsoring Terrorism," was originally delivered to Secretary of State Madeleine Albright and other top U.S. officials by *EIR* on Jan. 11, 2000, and then published in our Jan. 21, 2000 issue—20 months before the attacks on the World Trade Center and Pentagon. Those attacks were not "terrorism," but "irregular warfare," which *EIR* Founder Lyndon LaRouche has described as an ongoing coup d'état, involving special warfare capabilities from within the United States in collusion with international forces, against the nation LaRouche is seeking to guide with his 2004 Presidential campaign.

Had the lengthy dossier been taken seriously, and had the warnings of *EIR* and LaRouche been heeded then, the tragedy of Sept. 11, 2001 might have been averted.

EIR is reissuing the dossier at this time, as a vital public service to the world community, to help shape a viable international campaign against terrorism. The original *EIR* report was based on the information made public by Egypt, and nine other nations—Israel, France, Algeria, Peru, Turkey, Germany, Libya, Nigeria, Yemen, Russia, and India. The memo documents the protests these nations delivered to Britain over London's giving asylum, funding, and free rein to terrorist recruitment, fundraising, and training. It was delivered to top U.S. officials of the Defense Department, Justice Department, the FBI, the CIA, and both Houses of Congress.

Tragically, in the months since Sept. 11, the United States has responded to the attempted coup d'état with futile military action in Afghanistan, at a cost of an estimated $33 million per day to the United States, and many innocent civilians lives. Britain's Prime Minister Tony Blair has been allowed to parade around as "leader of the free world" in the fight against "Islamic terror," touting London's "special relationship" with the United States.

In addition, the paradox of the United States bombing Afghanistan while *ignoring* evidence of British intelligence services facilitating terrorism operations, and covering up for United States' own special warfare and intelligence networks' support for the Taliban, has created extreme international tensions, eroding support for the U.S. war on terrorism. French political leaders and counterterrorism experts even refer to London as "Londonistan," which terrorists find so amendable to use as a base between their visits to Afghan camps.

As for Blair, he is coming under the most intense attacks in Britain itself, where Sir Michael Howard, a leading Oxford University strategist told the Royal United Services Institute (RUSI) that the Afghanistan war was a "terrible and irrevocable error" which is "like trying to eradicate cancer cells with a blowtorch."

But of all the international criticism, rather than having President Bush continue this disastrous policy, it is LaRouche alone who provides a solution. First, LaRouche is the only statesman who has come out directly to say what other critics merely hint at, that "international terrorism" is "actually *irregular warfare*" deployed by governments or financial cliques. Second, it can be dried up by governments, if they resolutely go after the drug-trafficking, illegal weapons trade, and money-laundering run by major banks and financial institutions—especially those run through London.

International Backlash

The exposés of London's role described here, could become the opportunity for doing just what LaRouche has

“Londonistan, anyone?” It has been the safe-haven and exile of choice for terrorists convicted and sought in other nations; and for the raising of money, logistics, and recruits for international terror and irregular warfare.

specified as needed for a successful effort against international terrorism.

On Oct. 10, French National Assembly Deputy Arnaud Montebourg announced the publication of a report from a special Parliamentary Commission entitled, “The City Of London, Gibraltar, And The Crown Dependencies: Offshore Centers, Sanctuaries For Dirty Money” (see *EIR,* Oct. 26, 2001). Montebourg denounced the City of London—as well as some Crown dependencies—as a “fiscal, banking, and financial paradise for criminals,” assailing the City of London and British authorities’ thorough lack of interest in the fight against financial crime. “The government of Her Gracious Majesty claims to be leading the fight against terrorism, but it should first clean its own house.”

In Russia, on Oct. 2, Sergei Yastrzhembsky, President Vladimir Putin’s personal spokesman, praised U.S.-Russian cooperation, while singling out Britain for harboring terrorists, in a Moscow press briefing: “We estimate that as of the end of last year, Chechen militants received assistance from about 100 . . . foreign public organizations, funds, societies. . . . We drew the attention to the existence of a network of such organizations, for example, in London. . . . One of them is Al-Muhajiroun, and the leader of the movement is Omar Bakri, who continuously figures among the moral and political sponsors of at least the Chechen militants.”

The loudest criticism has come repeatedly from Egyptian President Hosni Mubarak, who rebuked British Foreign Minister Jack Straw for “harboring terrorists,” during the latter’s visit to Cairo on Sept. 28 (see *EIR,* Oct. 3, 2001). “Egypt has called on Britain to adopt certain policies to stop terrorist activities on its territories,” said Usama Al-Baz, Mubarak’s political adviser, in a press conference afterward. Mubarak blasted London’s role in an interview with the French daily *Le Figaro* on Sept. 22, saying that “certain European capitals are becoming veritable terrorist production plants.” He noted the hypocrisy of the British government in an interview with *Al-Ahram* in late October. “Some Western capitals continued to grant asylum to terrorists under the pretext of upholding human rights,” he said.

The greatest pressure on London has been from *EIR,* and its founder, Lyndon LaRouche, who has become internationally known in the Arab world, especially in Egypt, as the voice of reason from the United States. On October 3, 2001, using the latest information provided by President Mubarak in his charges against Britain, *EIR* published an article entitled “Why The Real Name Is Osama Bin-London.” It reported, among other things, that the killers of Northern Alliance leader Ahmed Shah Mahsood had been given credentials from an Islamic center run by “Yassir Al-Serri, a member of the Egyptian Islamic Jihad who enjoys asylum in Britain, even though he has a murder charge which carries a death sentence waiting for him in Egypt.” On Oct. 29, 2001, *Al Ahram* weekly reported the arrest of Al Serri in London for the conspiracy to kill Mahsood. As *EIR* reported, London had refused many previous requests from Egypt to extradite him.

However, the silence from Washington on London’s culpability has been deafening and represents an extreme danger to the United States and the world.

The density of statements from Mubarak, and the impact of the French Parliamentary Commission report have begun to break the decades-long media cover-up of this strategic treason by London.

On Nov. 2, *USA Today,* the largest circulation newspaper in the country, wrote an article on “Londonistan: Hub For Terrorism,” which stated: “No other nation in the West has been found to harbor, or has played home to so many terrorists linked to bin Laden, as Britain.” Radical clerics like Abu Hamza al-Masri, an al-Qaeda member whom the Yemeni government has repeatedly asked Britain to extradite, have a field day “recruiting new terrorists” in Britain, “the most critical Western hub for Islamic extremists bent on waging war against ‘infidels’ like the United States.”

USA Today was the latest in a series of major pieces that appeared in *Time Europe, Newsweek,* the French daily *Le Monde,* ABC News in the United States, and London’s *Daily Telegraph* and *Times*.

But press “exposés” will do little in themselves. It is time that U.S. officials in the administration and Congress use the *EIR* dossier to dry up London’s terrorist safe-havens.

Documentation

EIR's Dossier: Brits Sponsor Global Terrorism

The following memorandum, dated Jan. 11, 2000, was prepared for delivery to U.S. Secretary of State Madeleine Albright. It is a request to launch an investigation, pursuant to placing Great Britain on the list of states sponsoring terrorism.

To: Hon. Madeleine Albright, Secretary of State
From: The Editors, Executive Intelligence Review
C.C.: Hon. William Cohen, Secretary of Defense
Hon. Janet Reno, Attorney General
Hon. George Tenet, Director of Central Intelligence
Hon. Louis Freeh, Director, Federal Bureau of Investigation
Hon. Jesse Helms, Chairman, Senate Foreign Relations Committee
Hon. Joseph Biden, Ranking Democrat, Senate Foreign Relations Committee
Hon. Benjamin Gilman, Chairman, House International Relations Committee
Hon. Sam Gejdenson, Ranking Democrat, House International Relations Committee

This is a formal request for you to initiate a review of the role of the government of Great Britain in supporting international terrorism, to determine whether Britain should be added to the list of nations sanctioned by the United States government for lending support to international terrorist organizations.

This issue has been recently highlighted, as the result of the December 1999 Indian Airlines hijacking, and the response of the British government to the request of one of the freed Kashmiri terrorists, Ahmed Omar Sheikh, to be given safe passage to England. Mr. Sheikh, a British national, was tried and convicted in India, for his role in the kidnapping of four British nationals and an American in 1995. He was sentenced to five years in prison in November 1998. Initially, the British government announced that it would provide Mr. Sheikh with safe passage to Britain, and would not prosecute him or make any effort to extradite him back to India.

However, long before the Sheikh case, *Executive Intelligence Review* has documented a pattern of British involvement in harboring international terrorists, dating back to 1995. As of this writing, no fewer than a dozen governments—many of them leading allies of the United States—have filed formal diplomatic protests with the British Foreign Office, over specific instances of British official support for terrorist groups, targetting those nations.

Criteria For Evaluating Whether Britain Should Be Sanctioned

U.S. Government policy on sanctions against states sponsoring terrorism has been set by a series of Congressional acts, including, but not limited to: the Export Administration Act of 1979 (EAAA), the Anti-Terrorism and Arms Export Amendments Act of 1989 (ATAEAA), the Arms Export Control Act (22 U.S.C. 2780), the Foreign Assistance Act of 1961, the Omnibus Appropriations Act of 1996, and the Antiterrorism and Effective Death Penalty Act (AEDPA) of 1996.

It is our understanding that, while the Congress has given the Secretary of State broad discretion in designating a country as a state sponsor of terrorism, the legislative history of the House Foreign Affairs Committee and the Senate Foreign Relations Committee has specified seven criteria which should guide the Secretary's action.

These criteria are:

1. Does the state provide terrorists sanctuary from extradition or prosecution?
2. Does the state provide terrorists with weapons and other means of conducting violence?
3. Does the state provide logistical support to terrorists?
4. Does the state permit terrorists to maintain safehouses and headquarters on its territory?
5. Does the state provide training and other material assistance to terrorists?
6. Does the state provide financial backing to terrorist organizations?
7. Does the state provide diplomatic services, including travel documents, that could aid in the commission of terrorist acts?

As of this writing, the State Department currently designates seven countries as state sponsors of terrorism: Iraq, Iran, Libya, Syria, Sudan, Cuba, and North Korea. In the case of Syria, which is presently engaged in peace negotiations with Israel, the primary reason the regime remains on the list is that several designated Foreign Terrorist Organizations (FTOs) are headquartered in Damascus.

In the State Department Authorization Act of October 1991, specific procedures were spelled out for the President to remove a country from the list of state sponsors of terrorism. Congress has a 45-day period to pass a joint resolution overriding such a Presidential decision to remove a state from the list, which carries with it a number of significant sanctions.

The Case Against Great Britain

The following documentary time line is intended to provide an outline of the evidence that we wish the appropriate officials at the U.S. State Department to review, to make a determination whether Great Britain should be added to the

The U.S. military barracks, Khobar Towers, in Dhahran, Saudi Arabia, was bombed on June 25, 1996. Mohammed al-Massari, head of the London-based Committee for the Defense of Legitimate Rights and an associate of Osama bin Laden, described the attack as "intellectually justified," and said there would be more to come. The British government granted him "exceptional leave" to remain in the U.K.

list of states sponsoring terrorism, according to the criteria outlined above.

• In July 1998, a former British MI5 officer, David Shayler, revealed that, in February 1996, British security services financed and supported a London-based Islamic terrorist group, in an attempted assassination against Libyan leader Muammar Qaddafi. The action, Shayler charged, in an interview with the British *Daily Mail,* was sanctioned by then-Foreign Secretary Malcolm Rifkind. The incident described by Shayler did, in fact, occur. Although Qaddafi escaped without injury, the bomb, planted along a road where the Libyan leader was travelling, killed several innocent bystanders. In an Aug. 5, 1998 interview with BBC, Shayler charged, "We paid £100,000 to carry out the murder of a foreign head of state. That is apart from the fact that the money was used to kill innocent people, because the bomb exploded at the wrong time. In fact, this is hideous funding of international terrorism." According to Shayler's BBC interview, MI6 provided the funds to an Arab agent inside Libya, with instructions to carry out the attack.

In fact, in 1996, a previously unknown Libyan "Islamist" group appeared in London to claim responsibility for the attempted assassination of Qaddafi.

• On June 25, 1996, a bomb blew up the U.S. military barracks in Dharan, Saudi Arabia, killing 19 American soldiers. The next day, Saudi expatriate Mohammed al-Massari, the head of the London-based Committee for the Defense of Legitimate Rights, was interviewed on BBC. He warned the United States to expect more terror attacks, which he described as "intellectually justified." The U.S. military presence in Saudi Arabia "is obviously not welcomed by a substantial fraction of the population there," he warned, "and they are ready to go to the execution stand for it." He concluded, "There are so many underground parties—so many splinter groups, many of them made up of people who fought in Afghanistan. . . . I expect more of the same."

Despite the fact that al-Massari has repeatedly called for the overthrow of the House of Saud and the creation of an Islamic revolutionary state, he has been given "exceptional leave" to remain in Britain. In April 1996, the British Home Office granted al-Massari a four-year refugee permit to remain on British soil.

Al-Massari is allied with the well-known Saudi expatriate Osama bin Laden, who, to this day, maintains a residence in the wealthy London suburb of Wembly. And London is the headquarters of bin Laden's Advise and Reform Commission, run by the London-based Khalid al-Fawwaz.

Bin Laden has been given regular access to BBC and a variety of major British newspapers, to spread his calls for *jihad* against the United States. Thus, in July 1996, bin Laden told the London *Independent,* "What happened in Khobar [the U.S. Army barracks that was bombed on June 25] is a clear proof of the enormous rage of the Saudi population against them. Resistance against America will spread in many places through Muslim lands."

• On Jan. 25, 1997, Tory Member of Parliament Nigel Waterson introduced legislation to ban foreign terrorists from operating on British soil. His "Conspiracy and Incitement Bill," according to his press release, would have for the first time banned British residents from plotting and conducting terrorist operations overseas. Waterson proposed the bill in the aftermath of a scandal over Britain providing safe haven for Saudi terrorist Mohammed al-Massari, who claimed credit for the bombing of U.S. military sites in Saudi Arabia in June 1996.

On Feb. 14, 1997, Labour MP George Galloway succeeded in blocking Waterson's bill from getting out of committee. Galloway, in a speech before the committee that was printed in the House of Commons official proceedings, stated, "The Bill will change political asylum in this country in a profound and dangerous way. It will change a state of affairs that has existed since Napoleon's time. . . . We are all in favor of controlling terrorism in Britain. Surely not a single honorable Member has any truck with terrorism here, but we are talking about terrorism in other countries. . . . The legislation is rushed in response to a specific, and, for the government, highly embarrassing refugee case—that of Professor al-Massari, who was a thorn in the side of the government of Saudi Arabia. . . . By definition, a tyranny can be removed only by extraordinary measures. Inevitably, in conditions of extreme repression, the leadership of such movements will gravitate to countries such as ours where freedom and liberty prevail. The bill will criminalize such people, even though they have not broken any law in Britain or caused any harm to the Queen's peace in her realm. They will fall open to prosecution in this country under the Bill because they are inciting, supporting, or organizing events in distant tyrannies, which are clearly offenses under the laws of such tyrants."

• On Nov. 17, 1997, the Gamaa al-Islamiya (Islamic Group) carried out a massacre of tourists in Luxor, Egypt, in which 62 people were killed. Since 1992, terrorist attacks by the Islamic Group have claimed at least 92 lives. Yet, the leaders of the organization have been provided with political asylum in Britain, and repeated efforts by the Egyptian government to have them extradited back to Egypt have met with stern rebuffs by Tory and Labour governments alike.

On Dec. 14, 1997, British Ambassador to Egypt David Baltherwick was summoned by Egypt's Foreign Minister Amr Moussa and handed an official note, demanding that Britain "stop providing a safe haven to terrorists, and cooperate with Egypt to counter terrorism." In an interview with the London *Times* the same day, the Foreign Minister "called on Britain to stop the flow of money from Islamic radicals in London to terrorist groups in Egypt, and to ban preachers in British mosques calling for the assassination of foreign leaders." The *Times* added that Moussa "was outraged by reports that £2.5 million had come from exiles in Britain to the outlawed Gamaa al-Islamiya," and noted that the Egyptian government "has blamed the Luxor massacre on terrorists funded and encouraged from abroad, and identified Britain as the main center for radicals plotting assassinations."

To substantiate the charges against Britain, the Egyptian State Information Service posted a "Call to Combat Terrorism" on its official web site. The document read, in part, "Hereunder, is a list of some of the wanted masterminds of terrorism, who are currently enjoying secure and convenient asylum in some world capitals." The "wanted list" consisted of photographs and biographical data on 14 men, linked to the Luxor massacre and other earlier incidents of terrorism. The first seven individuals listed were all, at the time, residing in London. They are:

Yasser al Sirri: "Sentenced to death in the assassination attempt on the life of former Prime Minister Dr. Atef Sidqi; founded the Media Observatory in London as mouthpiece for the New Vanguards of Conquest."

Adel Abdel Bari: "At present, heads Egyptian Human Rights Defense Office, affiliated to Media Observatory in London, the mouthpiece for the outlawed Jihad Organization."

Mustafa Hamzah: "Commander of the military branch of the outlawed 'Islamic Group.' "

Tharwat Shehata: "Sentenced to death in the assassination attempt on Dr. Atef Sidqi, former Prime Minister; associated with, and in charge of financing extremist elements abroad; involved in reactivating the outlawed 'Jihad Organization' abroad."

Osama Khalifa: "Accused no. 1 in the case involving domestic and foreign activities of the outlawed Islamic Group."

Refa Mousa.

Mohamed el Islambouli: "One of the principal leaders of the Islamic Group; sentenced to death in the case of the outlawed organization of 'Returnees from Afghanistan.' "

Groups Banned By United States Are Headquartered In London

Shortly before the Luxor massacre, on Oct. 8, 1997, the U.S. State Department, in compliance with the Anti-Terrorism Act of 1996, released a list of 30 Foreign Terrorist Organizations (FTOs), banned from operating on U.S. soil.

Of the 30 groups named, six maintain headquarters in Britain. They are: the Islamic Group (Egypt), Al-Jihad (Egypt), Hamas (Israel, Palestinian Authority), Armed Islamic Group (Algeria, France), Kurdish Workers Party (Turkey), and the Liberation Tigers of Tamil Eelam (Sri Lanka).

The Islamic Group, and its subsidiary arm, Islamic Jihad, are headquartered in London. In February 1997, the British government formally granted permission to Abel Abdel Majid and Adel Tawfiq al Sirri to establish Islamic Group fundraising and media offices in London, under the names International Bureau for the Defense of the Egyptian People and the Islamic Observatory. Abdel Majid was implicated in the October 1981 assassination of Egyptian President Anwar Sadat, and he subsequently masterminded the escape of two prisoners jailed for the assassination. In 1991, he fled to Britain and immediately was granted political asylum. He has coordinated the Islamic Group's overseas operations ever since. In fact, he was sentenced to death *in absentia* for the bombing of the Egyptian Embassy in Islamabad, Pakistan in

November 1995, in which 15 diplomats were killed.

Abdel Tawfiq al Sirri, the co-director of the movement, has also been granted political asylum in Britain, despite the fact that he was also sentenced to death *in absentia* for his part in the 1993 attempted assassination of Egyptian Prime Minister Atif Sidqi.

In September 1997, Sheikh Omar Abdel Rahman, who is in jail in the United States for his role in the Feb. 28, 1993 bombing of the World Trade Center in New York, issued an order, as the spiritual leader of the Islamic Group, calling for an immediate cease-fire. The six members of the ruling council of Islamic Group residing in Egypt endorsed the Sheikh's order, but the remaining six council member, living in London, rejected the order. Two months later, the massacre at Luxor took place.

Similarly, the Algerian Armed Islamic Group (GIA), which was responsible for the assassination of Algerian President Mohamed Boudiaf on June 29, 1992, has its international headquarters in London. Sheikh Abu Qatabda and Abu Musab communicate military orders to GIA terrorists operating in Algeria and France via the London-based party organ, *Al Ansar*. Sheikh Abu Qatabda was granted political asylum in Britain in 1992, after spending years working in Peshawar, Pakistan with various Afghani mujahideen groups. A third London-based GIA leader, Abou Farres, oversees operations targetted against France. He was granted asylum in Britain in 1992, after he was condemned to death in Algeria for acknowledging responsibility for a bombing at Algiers airport, which killed nine people and wounded 125. Farres was believed responsible, from his base in London, for the July-September 1995 string of blind terrorist acts in France, including bombings of three Paris train and subway stations and an open-air market.

The Liberation Tigers of Tamil Eelam (LTTE), known as the "Tamil Tigers," have carried out a decade-long terror campaign against the government of Sri Lanka, in which they have killed an estimated 130,000 people. In addition, LTTE was responsible for the suicide-bomber murder of former Indian Prime Minister Rajiv Gandhi on May 21, 1991, and the similar assassination of Sri Lankan President Ranasinghe Premadasa on May 1, 1993.

Since 1984, the LTTE International Secretariat has been located in London. The official spokesman for the Secretariat is Anton Balsingham, an Oxford University graduate and former British Foreign Office employee. The group's suicide-bomber division, the Black Tigers, which killed Rajiv Gandhi, is run by Pampan Ajith, out of LTTE London headquarters; another elite suicide-bomber cell, the Sky Tigers, which employs light aircraft, is coordinated by Dr. Maheswaran, also based in London.

Most of the marching orders for terrorist operations in the Indian subcontinent are delivered from London, via a string of LTTE publications, including *Tamil Nation* and *Hot Spring,* published in London, and *Network* and *Kalathil,* published in Surrey. The organization's chief fundraiser and banker, Lawrence Tilagar, is also based in London.

Similarly, the Islamic Resistance Movement, Hamas, maintains its publishing operations in London, including its monthly organ, *Filisteen al-Muslima*. In 1996, this publication issued a *fatwa* (religious ruling), calling for terrorist attacks against Israel. On Feb. 25 and March 3, shortly after the *fatwa* was published, Hamas suicide bombers blew up two Jerusalem buses and a Tel Aviv market, killing 55 people. Funding of these terrorists, who are part of the military wing, Izeddin al Kassam, comes from London, where Interpal is the chief money arm of the group.

In the case of the Kurdish Workers Party (PKK), the British government played an even more direct role in supporting the 17-year war against the Turkish government by the Kurdish separatists. An estimated 19,000 people have been killed in Southeast Turkey since the PKK launched its terror war in 1983. In May 1995, after the PKK was expelled from Germany, for seizing control of Turkish diplomatic buildings in 18 European cities, the British government licensed MED-TV in London, through which the PKK broadcasts four hours a day into its enclaves inside Turkey, and all over Europe. In a March 1996 broadcast, PKK leader Apo Ocalan called for the execution of German Chancellor Helmut Kohl and his Foreign Minister Klaus Kinkel. And when the PKK held its founding "parliament in exile" in Belgium in 1995, three members of the British House of Lords either attended or sent personal telegrams of endorsement. The three were Lord Hylton, Lord Avebury, and Baroness Gould.

The same Lord Avebury has been an active backer of the Peru Support Group in London, which has served as a major international fundraising front for the Peruvian narco-terrorist group Shining Path (Sendero Luminoso). When Adolfo Héctor Olaechea was dispatched by Shining Path to London in July 1992, to establish the "foreign affairs bureau," he received a letter of recognition from Buckingham Palace, which he circulated widely. The letter read in part, "The private secretary is commanded by Her Majesty Queen Elizabeth to acknowledge receipt of the letter from Mr. Olaechea, and to say that it has been passed on to the Home Office."

In addition to the six FTOs who have their headquarters in Britain, an additional 16 groups on the State Department's 1997 list either receive funding from groups based in Britain, or receive military training and logistical support from groups operating freely from British soil. Those groups are: the Abu Nidal Organization (Palestinian Authority), Harkat ul-Ansar (India), Mujahideen e Khalq (Iran), Kach (Israel, Palestinian Authority), Kahane Chai (Israel, Palestinian Authority), Abu Sayyaf (Philippines), Hezbollah (Israel, Lebanon), Khmer Rouge (Cambodia), ELN (Colombia), FARC (Colombia), Shining Path (Peru), MRTA (Peru), Democratic Front for the Liberation of Palestine (Israel, Palestinian Authority), Islamic Jihad-Shaqaqi (Israel, Palestinian Authority), Popular Front for the Liberation of Palestine (Israel, Palestinian Authority), PFLP-General Command (Israel, Palestinian Authority).

The 'Fatwa' Against American Targets

On Feb. 10, 1998, a group of well-known London-based "Islamists" and Islamic organizations issued a *fatwa,* calling for terrorist attacks against American targets. It was signed by Saudi terrorist supporter Mohammed Al-Massari and Omar Bakri, head of the Al-Muhajiroon, and was endorsed by 60 organizations that are based in the United Kingdom. It instructed Muslims living in the United States: "You have first to renounce the residency or acquire citizenship, then start military activities if physically capable. You are then at liberty to fight them everywhere in the world or re-enter the realm clandestinely and wreak havoc, obviously facing charges as spy, terrorist, etc."

On Feb. 23, 1998, a second *fatwa* was issued, entitled "World Islamic Front's Statement Urging Jihad Against Jews and Crusaders." It called for killing Americans because of their "occupation of the holy Arab Peninsula and Jerusalem" and their "oppressing the Muslim nations," and concluded, "in compliance with God's order, we issue the following *fatwa* to all Muslims: The ruling to kill the Americans and their allies—civilian and military—is an individual duty for every Muslim who can do it in any country in which it is possible to do it, in order to liberate the al-Aqsa Mosque and the holy Mosque [Mecca] from their grip, and in order for their armies to move out of the lands of Islam, defeated, and unable to threaten any Muslims. We—with God's help—call on every Muslim who believes in God and wishes to be rewarded to comply with God's order to kill the Americans."

The *fatwa,* which was widely reported in the London-based Arabic daily *Al Quds al Arabi,* was signed by Sheikh Osama bin Laden, who, despite his current residence in Afghanistan, continues to maintain a lavish mansion in London; Ayman al Zawahiri, head of the Islamic Group behind the November 1997 massacre at Luxor, Egypt; Abu Yasser Rifai Ahmad Taha, another leader of the Islamic Group, residing in London; and Sheikh Mir Hamza, secretary of the Jamiat ul Ulema e, of Pakistan.

The two *fatwas* were the subject of testimony by an official of the Central Intelligence Agency on Feb. 23, 1998, before the Senate Subcommittee on Terrorism, chaired by Sen. John Kyl (R-Ariz.). At Senator Kyl's request, the CIA Counterterrorism Center provided the subcommittee with a declassified memorandum, titled "Fatwas or Religious Rulings by Militant Islamic Groups Against the United States." The memorandum stated that "a coalition of Islamic groups in London, and terrorist financier Osama bin Laden, have issued separate *fatwas,* or religious rulings, calling for attacks on U.S. persons and interests worldwide, and on those of U.S. allies. . . . Both *fatwas* call for attacks to continue until U.S. forces retreat from Saudi Arabia and Jerusalem. The *fatwa* from the groups in london also calls for attacks until sanctions on Iraq are lifted. These *fatwas* are the first from these groups that explicitly justify attacks on American civilians anywhere in the world. Both groups have hinted in the past that civilians are legitimate targets, but this is the first religious ruling sanctifying such attacks."

Two days before the Aug. 7, 1998 bombings of the U.S. embassies in Dar es Salaam, Tanzania and Nairobi, Kenya, the Islamic Jihad issued a declaration, targetting American interests all over the world. The communiqué accused the CIA of cooperating with Egyptian officials to capture three members of the group in Albania, and extradite them to Egypt where they faced prosecution on capital offenses.

Within hours of the two bombings, a number of London-based groups issued endorsements of the bombings. Supporters of Sharia, headed by Abu Hamza Al-Misri, an Egyptian who was convicted of a capital offense in Egypt, but who enjoys political asylum in London, issued one of the most virulent "endorsements." Omar Bakri, the head of Al-Muhajiroon, as well as the Islamic Observation Center, the Islamic Jihad organization's official propaganda and fundraising organization in London, also endorsed the bombings. The Islamic Observation Center was officially licensed by the British government in 1996 to carry out activities in Britain.

Attacks On Yemen

In the third week of December 1998, a London-based terrorist group was planning to launch operations to destabilize the Republic of Yemen. Members of the Ansar Al-Sharia, directed from London by Mustafa Kamel (a.k.a. Abu Hamza Al-Masri, a British citizen and former Afghansi "mujahid," who trains groups of young people for terrorist activities at his Finsbury Mosque in north London, were arrested on Dec. 23, 1998 in Yemen, as they were planning armed terrorist operations. These terrorists were in contact with the Islamic Army of Abeen-Aden (affiliated with the London-based Egyptian Islamic Jihad), which had kidnapped 16 British and Australian tourists a few days earlier.

A rescue operation on Dec. 29 by the Yemeni security forces resulted in the kidnappers killing three British hostages and one Australian; 12 tourists were freed. British press and, later, government officials, accused the Yemeni security forces of "provoking the murders," because they refused to negotiate with the terrorists.

In response, the Yemeni authorities did not mince words. In one day, Yemen kicked out the British Scotland Yard officers who had been invited to observe the investigations, withdrew its application to join the British Commonwealth, and announced that a group of British citizens had been arrested while attempting a massive terror-bombing campaign in Aden.

On Jan. 25, Yemen President Ali Abdullah Saleh demanded from British Prime Minister Tony Blair that Abu Hamza Al-Masri be handed over for trial in Yemen on charges of carrying out terrorist acts in Yemen and several other Arab states. This was expressed in an official message Saleh sent to Blair, conveyed by the British Ambassador to Yemen, Victor


Buckingham Palace in London: British law does not consider it a crime for groups based in Britain to carry out terrorism outside Her Majesty's domains.

Henderson. The London-based daily *Al-Hayat* reported that, according to government sources in Sanaa, Yemen's capital, the message from President Saleh stressed that the Yemeni government has the right to demand that the British government hand over Abu Hamza, and evidence and documents which prove its description of Abu Hamza as a "terrorist" and "extremist."

However, British law does not consider it a crime for individuals and groups based in Britain to plan, incite, or conduct terrorist operations outside Her Majesty's domains.

Abu Hamza's case is even more complicated, because he is not only an asylum seeker, but has British citizenship. The Yemeni request came in the context of investigations conducted by the Yemeni security authorities into the group whose members were arrested on Dec. 23, including five British citizens (one of them the son of Abu Hamza) and one French citizen, who were in possession of weapons and explosives and were said to be involved in carrying out "terrorist and destructive plans which undermine Yemen's security and stability."

The Yemeni investigations found that Abu Hamza has relations with this group, in addition to his "firm links to the Islamic Army of Aden," led by Abu Hassan al-Muhdar, who is in custody. Al-Muhdar's group carried out the kidnapping of the tourists in December 1998. The Yemeni government sources added that the message of the Yemeni President to the British Prime Minister expressed Yemen's great regret over the "terrorist activities carried out by Abu Hamza al-Masri" and others from the British territories, acts which it said undermine Yemen's security and stability, as well as similar terrorist acts in several Arab states.

Eight days earlier, Abu Hamza called for killing Yemeni officials if the Yemeni authorities sentenced the kidnappers to death. Replying to a question from the Qatari al-Jazira satellite TV network on Jan. 14, he said: "If Zein al-Abidin al-Muhdar were to be executed, there will be revenge acts and massacres."

Abu Hamza stated in a televised debate on Jan. 18 that he had been contacted by the leader of the group that carried out the kidnapping before the rescue operation, "and asked me for advice." Abu Hamza accordingly issued a communiqué and threatened the Yemeni authorities.

The target of these operations has been the government of the Republic of Yemen itself. Abu Hamza made this clear in the televised debate, in which he said that the ultimate goal is to overthrow the secular regime in Sanaa, and that there are supporters in Yemen who are ready to fight for establishing an Islamic state. Al-Muhdar, during his trial in Yemen, confirmed that the objective of his group is to overthrow every secular government in the region.

Formal Diplomatic Protests To London

This British harboring of international terrorist groups has not gone unnoticed by the nations that have been the targets of this brutality. To date, the British Foreign Office has received formal diplomatic protests from at least ten victimized countries. These include:

Egypt: British asylum for the Islamic Group and Islamic Jihad has been a persistent reason for Egyptian complaints to the British government. In April 1996, Egyptian Interior Minister Hasan al-Alfi told the British Arabic weekly *Al-Wasat,* "All terrorists come from London. They exist in other European countries, but they start from London." On Aug. 29, the government daily *Al-Ahram* reported that the British chargé d'affaires in Cairo was summoned by the Deputy Foreign Minister, and given a letter for Foreign Minister Malcolm Rifkind, protesting Britain's "double standard policy" and "support for international terrorism." An official of the Egyptian Foreign Ministry was quoted in the paper, saying, "The asylum law in Britain has provided a safe-haven for terrorists."

Egypt has been particularly incensed that the British have allowed the Islamic Group/Islamic Jihad to use London as their home-base. Continual demands that Britain extradite Islamic Group leaders Adel Abdul Majid and Adel Tawfiq al Sirri back to Cairo, where they have been sentenced to death *in absentia* for terrorist crimes, have been rejected.

On Feb. 13, 1997, Egyptian officials told *Al-Hayat,* that the Egyptian government remains "troubled" and "astonished" by Britain's decision to allow Abdul Majid to establish officially recognized centers in London, especially after the Egyptian Supreme Court released admissions from several members of the group, at the beginning of 1997, that they had received money and marching orders from Abdul Majid, to carry out bombings and assassinations throughout 1996.

These same officials told the paper that "this only further supports Egypt's belief that London has become the most prominent center for anti-Egypt Islamic extremist groups," and that there will continue to be talks on the highest levels "to know the reasons that made the British government allow the establishment of that [Islamic Group] office."

Following the Luxor massacre, Egyptian President Hosni Mubarak launched a personal international crusade to spotlight the role of the British government in harboring and sponsoring the terrorists who have targetted Egypt.

Israel: On March 3, 1996, after a Hamas bomb exploded in a Jerusalem market, killing a dozen people, and a second bomb exploded in Tel Aviv, Israel's ambassador to London met with Foreign Minister Rifkind to demand that Britain stop protecting the group. In an account of that confrontation, the London *Express* reported the next day, "Israeli security sources say the fanatics behind the bombings are funded and controlled through secret cells operating here. Only days before the latest terror campaign began, military chiefs in Jerusalem detailed how Islamic groups raised £7 million in donations from British organizations. The ambassador, Moshe Raviv, yesterday shared Israel's latest information about the Hamas operations. A source at the Israeli embassy said last night, 'It is not the first time we have pointed out that Islamic terrorists are in Britain.' "

The British Foreign Office officially responded to the Israeli ambassador: "We have seen no proof to support allegations that funds raised by the Hamas in the U.K. are used directly in support of terrorist acts elsewhere."

In early September 1997, Shin Bet chief Ami Ayalon travelled to Britain, according to the *Sunday Telegraph,* after investigations determined that the two Hamas suicide bombers who killed 15 people in a Jerusalem market on July 30, arrived in Israel on British passports: "Israeli officials are said to have become increasingly frustrated by what they see as British foot-dragging in curbing the activities of Palestinian hard-liners. The Israeli government has made repeated calls for action to be taken against militants, said to be operating freely in the British capital."

France: In late 1995, the GIA's London headquarters ordered a terror war against France, leading France to loudly protest to the British government, according to the Nov. 6, 1995 London *Daily Telegraph,* in an article entitled "Britain Harbours Paris Bomber." On Nov. 3, 1995, the French daily *Le Figaro* wrote, under the headline "The Providential Fog of

London," of the GIA's bombing spree: "The trail of Boualem Bensaid, GIA leader in Paris, leads to Great Britain. The British capital has served as logistical and financial base for the terrorists."

The next day, *Le Parisien* reported that the author of the GIA terror attack inside France was former Afghan mujahideen leader Abou Farres, who was given a residence visa in London, despite the fact that he was already wanted in connection with the bombing of the Algiers Airport. Farres's London-based organization, according to *Le Parisien,* recruits Islamic youth from the poor suburbs of Paris, and sends them to Afghanistan, where they are trained as terrorists.

Algeria also filed strong protests to the British Foreign Office over the harboring of the GIA in London.

Peru: The Peruvian government has made repeated requests to the British government, since 1992, demanding the extradition of Adolfo Héctor Olaechea, the London-based head of overseas operations for Shining Path, as well as the shutdown of its fundraising and support operations there. Both requests have been refused to this day. Moreover, in 1992, during the worst of the Shining Path offensive in Peru, Channel 4, of the Independent Broadcasting Authority, a dependency of the British Home Office, coordinated with Olaechea to send two journalists to Peru, where they contacted Shining Path units, and filmed a highly favorable report. The film was broadcast throughout Britain by Channel 4 on July 10, 1992, despite an official protest from the Peruvian government.

Turkey: On Aug. 20, 1996, the Turkish government formally protested to the British government for allowing the Kurdish Workers Party to continue its London-based MED TV broadcasts into Turkey, despite documentation that the broadcasts were being used to convey marching orders to PKK terrorists there.

Germany: The Bonn government issued a diplomatic note to London, too, following a March 1996 MED TV broadcast in which PKK leader Apo Ocalan called for murdering German Chancellor Kohl and Foreign Minister Kinkel. According to the German press, the Interior Ministry stated concerning the London station: "We have requested our colleagues in neighboring countries in Europe to put measures into effect in order to not compromise internal security in our own country."

Libya: On Feb. 7, 1997, the Libyan Foreign Ministry submitted an official protest to the British government, over Britain's permitting of the Militant Islamic Group to operate on British soil. The letter cited the recent assassination attempt against Colonel Qaddafi by members of the London-headquartered group, and read, in part, "The decision by Britain, which is a permanent member state of the [UN] Security Council, to shelter elements of that terrorist group who are wanted to stand trial in Libya and to enable them to openly announce their destructive intentions against a UN member state, namely Libya, . . . contravenes international charges and treaties."

Nigeria: On Feb. 28, 1997, the British government issued a denial that it had refused to extradite three Nigerians suspected of a series of bombings in the major city of Lagos in January 1997. The three men were leaders of the National Democratic Coalition (Nadeco).

Yemen: In January 1999, the government of Yemen filed formal diplomatic protests with Britain for the harboring of the terrorists who carried out bombings and kidnappings.

Russia: On Nov. 14, 1999, the Russian Foreign Ministry filed a formal protest to Andrew Wood, Britain's Ambassador in Moscow, after two Russian television journalists were brutally beaten as they attempted to film a London conference, where bin Laden's International Islamic Front, Ansar as-Shariah, Al-Muhajiroon, and other Islamist groups called for a *jihad* against Russia, in retaliation for the Russian military actions in Chechnya.

One of the victims of the beating, ORT cameraman Alexandr Panov, told *Kommersant* daily that he was "very surprised at the indifference of the British government. Some of the participants at the 'charity' event were people wanted by Interpol, but Scotland Yard, although evidently aware of their residence [in Britain], does not react."

On Nov. 10, 1999, the Russian government had already filed a formal diplomatic démarche via the Russian Embassy in London, protesting the attacks on the Russian journalists, and also the admissions by Sheikh Omar Bakri Mohammed, the head of the "political wing" of the bin Laden organization, Al Muhajiroon, that the group was recruiting Muslims in England to go to Chechnya to fight the Russian Army. Bakri's organization operates freely from offices in the London suburb of Lee Valley, where they occupy two rooms at a local computer center, and maintain their own Internet company. Bakri has admitted that "retired" British military officers are training new recruits in Lee Valley, before they are sent off to camps in Afghanistan or Pakistan, or are smuggled directly into Chechnya.

On Nov. 20, 1999, the *Daily Telegraph* admitted, following the release of the U.S. State Department's updated list of Foreign Terrorist Organizations, that "Britain is now an international center for Islamic militancy on a huge scale . . . and the capital is the home to a bewildering variety of radical Islamic fundamentalist movements, many of which make no secret of their commitment to violence and terrorism to achieve their goals."

India: In December 1999, following the conclusion of the Indian Airlines hijacking, the Indian government protested the fact that British officials publicly stated that they would allow one of the freed Kashmiri terrorists, Ahmed Omar Sheikh, to return to London, because there "were no charges filed against him in Britain." The British government, facing growing international pressure, apparently has backed down from this decision.

Kissinger, Other Taliban Apologists Now Lead Drive For War Against Islam

by Jeffrey Steinberg and Michele Steinberg

Former Secretary of State Henry A. Kissinger's self-promotion as a leader in the war against terrorism is a case of a *very big fraud*. Speaking Oct. 31 before London's Mont Pelerin Society think-tank, the Centre for Policy Studies, self-professed British agent of influence Kissinger declared that only the complete destruction of the Taliban regime and Osama bin Laden's al-Qaeda terrorist network could safeguard "world order."

Heaping praise on the British government of Prime Minister Tony Blair for its unwavering support for the Anglo-American "special relationship," Kissinger said, "The war in Afghanistan must be seen as an attack on the most flagrant harborer of terrorists, [and] against the most symbolic representative of terrorism in the person of bin Laden." Kissinger stressed that "there cannot be an ambiguous outcome: that the Taliban government has to be eliminated; that the bin Laden network has to be unambiguously destroyed. . . . Because if the Taliban are still standing at some point in time they will become a symbol of the ability to resist the strongest nation and its allies. . . . It will have a very dangerous impact on everybody."

Kissinger darkly warned those nations doing "as little as they want" against Afghanistan, such as Syria and Iran, that a point will come that "will oblige countries . . . to choose between whether they wish to remain in the coalition or to engage in actions that support terrorism."

Kissinger is also placing op-eds in newspapers throughout the United States, on the necessity to "shatter" the Taliban.

The Dark Side Of The Moon

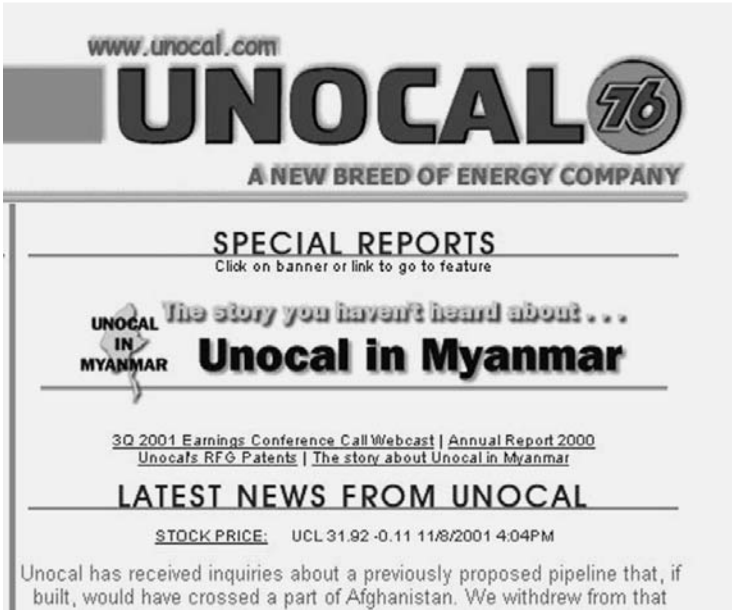
EIR is assembling the evidence that individuals, including Kissinger and Arnaud de Borchgrave, editor-at-large of the Rev. Sun Myung Moon-owned *Washington Times* and United Press International (UPI)—and another war enthusiast for the obliteration of bin Laden and the Taliban—were, only recently, leading apologists and supporters of the same Taliban. Evidence shows that connections from inside leading U.S. circles to bin Laden did not end with the Soviet Union's pullout from Afghanistan in 1989, and that promotion of the Taliban continued through the Summer of 2001! Other individuals involved will be identified in future issues of *EIR*.

In Kissinger's case, he has been linked to an effort to keep Afghanistan and the Taliban rulers *off* the list of countries which are "state sponsors" of terrorism. According to a front-page story in the Nov. 5 *Washington Post* by Mary Pat Flaherty, David Ottaway, and James Grimaldi, "How Afghanistan Went Unlisted As Terrorist Sponsor," the former Secretary of State was a consultant to the American oil company, Unocal, to lobby the State Department against any sanctions against Afghanistan, in order to protect his client's plans to build a pipeline across the country to access Central Asian oil. The *Post* reported, "To secure critical financing from agencies such as the World Bank, [Unocal] needed the State Department to formally recognize the Taliban as Afghanistan's government. Unocal hired former State Department insiders: former Secretary of State Henry Kissinger, former special U.S. Ambassador John J. Maresca, and Robert Oakley, a former U.S. Ambassador to Pakistan."

Unocal's interest was unequivocally stated before the U.S. Congress on Feb. 12, 1998, when Maresca, then Unocal's vice president for international relations, testified before the House International Relations Committee, Subcommittee on Asia and the Pacific, pushing Unocal's Afghan pipeline scheme, which aimed to cut Russia and Iran out of the lucrative Central Asian oil and natural gas market. Maresca noted that since an Iranian pipeline was out of the question because of "U.S. sanctions legislation," therefore "the only possible route option is across Afghanistan. . . . A route through Afghanistan appears to be the best option with the fewest technical obstacles." While he claimed that Unocal "does not favor any group" among the fighting Afghan factions, the company's lobbying efforts centered on getting U.S. government endorsement for the Taliban as the recognized government. Just a few months before Maresca's Congressional testimony, Unocal had brought a delegation of Taliban leaders to Washington, for meetings with members of Congress and the Clinton Administration.

Maresca told Congress that "the construction of our proposed pipeline cannot occur until a recognized government is in place," implying that the United States had better hurry up and recognize the Taliban.

The case of de Borchgrave is even more graphic. In June



Unocal Corp. now scurries to dissociate itself from the pipeline project for which it aggressively supported and promoted the Taliban government in Afghanistan. Henry Kissinger, now calling for obliteration of Afghanistan, also promoted the Taliban very, very recently.

2001, de Borchgrave was in Kandahar, Afghanistan, interviewing Mullah Mohammad Omar Akhund, the head of the Taliban. The interview, released by UPI on June 14, was full of praise for the Taliban leader, characterizing him as a war hero injured five times in the fight to drive the Soviet Red Army out of the country. De Borchgrave portrayed Omar as reining in bin Laden, and quoted Omar, uncritically, accusing the United States of withholding evidence from the "trial" that was held against bin Laden by a Taliban "court."

Since Sept. 11, both Kissinger and de Borchgrave, along with a number of other "former" Taliban patrons and apologists, have been among the loudest cheerleaders for the bombing against Afghanistan. As 2004 Democratic Presidential pre-candidate Lyndon LaRouche observed, it is reminiscent of those who were selling iron to Japan on the eve of Pearl Harbor.

A New 'New World Order'

When Kissinger appeared in London before an audience of 800 on Oct. 31, he did so as a member of a rogue network, allied with Britain, to bring the policy of the United States into a "clash of civilizations." "I do not speak for the [Bush] Administration," he said, as he declared peace to be impossible with Islam. There is a "fundamental difference" with Islam, which perhaps only "Britain and America" yet understand. He said that Sept. 11 woke up the American people from the slumber of complacency, emotionally even more happened after Pearl Harbor. "Until then the American public would have been astonished to hear that there were fundamental differences between the United States and Islam . . . that there was such as thing as a concept of a war of civilizations."

Admitting that he is "impatient" with the pace of the war, Kissinger added that if "victory in Afghanistan is the only purpose . . . we will find that terrorism will come back." Instead, the issue of a country's stand on terrorism will be the way to "recast the international system." He also said that the current Bush Administration policy essentially allows Palestinian groups to "have a free pass."

Kissinger is today a member of the Pentagon's Defense Policy Board, appointed at the invitation of its chairman, Richard Perle. Perle is one of the notorious members of Washington's "Wolfowitz cabal" which is leading the pack for turning the "war against terrorism" into World War III. It is no secret that Kissinger and Perle are at the center of conspiracy against the policies of President George Bush and Secretary of State Colin Powell to fight the war against terrorism through a "coalition." Instead, Kissinger and "Wolfowitz cabal" want a war plan that targets several Islamic countries in succession, leading with Iraq (see *EIR,* Nov. 2, 2001, "The Wolfowitz Cabal Is An Enemy Within"). Both Perle and Kissinger are leading officials of the Hollinger Corp. intelligence network of London, owned by Canadian Conrad Black, which publishes the London *Daily Telegraph* and the *Jerusalem Post*. The *Telegraph* network, like the de Borchgrave network of Moon-owned publications, constitutes the media-brainwashing and war-propaganda side of the operation.

De Borchgrave shares Kissinger's chameleon-like ability to change colors as expediency demands. On Sept. 23, he filed a UPI story denouncing the Pakistani Islamic clergy, and Pakistan's Inter-Service Intelligence (ISI) agency, for their promotion of the "global terror network" centered out of Afghanistan and protected by the Taliban.

This is a case of world-class fraud. Kissinger and de Borchgrave parade today as the biggest war enthusiasts, but were recently covering up for the Taliban—which, among other things, is responsible for 80% of the heroin reaching the European and Asian markets, according to U.S. and Russian authorities.

Of course, Kissinger and de Borchgrave are not alone in this perfidy. This news service has confirmed that there are allies of Zbigniew Brzezinski inside the National Security Council and elsewhere inside the Bush Administration, who are equally complicit in the pre-Sept. 11 boosting of the Taliban.

Opposition Grows In U.K. To Afghan War Fiasco

by Mark Burdman

As British Prime Minister Tony Blair keeps up his frenetic international diplomacy, most recently to Washington, toward realizing what his chief foreign policy adviser Robert Cooper has defined as a "New Empire" run by the Anglo-Americans, prominent British establishment figures are arguing that the Afghan war and related strategic operations are disastrous and insane.

A London source who has extensive contacts in the British military and diplomatic community, explained to *EIR,* on Nov. 7, that unease about what is happening now, is strongest among "the older generation of strategists and historians, who recall World War II, and are especially against the use of carpet bombing." Such people are very concerned that Blair "lacks the experience" to handle such crucial matters as conducting a war, he said.

As an example of such criticism, he pointed to an Oct. 31 speech before the official Royal United Services Institute (RUSI) in London by Sir Michael Howard, one of Britain's leading military historians, who is Regius Professor of Modern History at Oxford University. Sir Michael began, by excoriating those in the Bush Administration who immediately characterized the battle against the alleged culprits of the Sept. 11 atrocities, as "a war." This, he pronounced, was a "terrible and irrevocable error." He described what is being done now in Afghanistan in the name of the "war against terrorism," as "like trying to eradicate cancer-cells with a blowtorch."

According to Howard, the current strategy has, ironically, given the terrorists the initiative. No matter what happens now to him personally, whether he is killed and becomes a martyr, or survives, Osama bin Laden "can't lose."

Howard reserved his strongest attacks for those "figures on the right" who, "seeing themselves cheated of what the Germans used to call a *'frisch, fröhliche Krieg'*—a short, jolly war in Afghanistan—demand one against a more satisfying adversary, Iraq; which is rather like the drunk who lost his watch in a dark alley, but looked for it under a lamp, because there was more light there." Howard argued that, precisely because of their "imperial experience," Britain and France should understand better than anybody, that the problems of Islamic nations cannot be dealt with in this way, and that an exit strategy must be found. "Prolongation of the war is likely to be disastrous. Even more disastrous, would be its extension, as American opinion seems increasingly to demand, in a 'Long March' through other 'rogue states,' beginning with Iraq, in order to eradicate terrorism for good and all, so that the world can live at peace. I can think of no policy more likely, not only to indefinitely prolong the war, but to ensure that we can never win," he said.

Noting Blair's repeated insistence that people should "keep their nerve," Howard concluded that "it is no less important that we should keep our heads."

The RUSI is widely promoting the speech, through the Internet and other means, indicating that it has struck a chord among elements in the British military establishment opposed to the Blair flight-forward. It has been praised, by leading commentators in the British press.

Bombing Brings 'The Greater Danger'

Another voice against the war, was a letter to the editor in the Nov. 7 London *Times,* co-authored by Lord Denis Healey, Baroness Mary Warnock, and other prominent, politically liberal figures in the British establishment. Healey was British Foreign Secretary (1964-70) in the Labour Party government, and was an outspoken opponent of the 1991 Gulf War against Iraq. Warnock is a leading "ethicist" and philosopher who, in the past, has sharply criticized the ultra-liberal economic policies of former Prime Minister Margaret Thatcher.

Healey, Warnock, et al. demanded that the bombing of Afghanistan must stop, because it leads to "more civilians killed; more discord in Pakistan which could end in fundamentalists getting power, and with nuclear weapons at their disposal; possible overthrow of the Saudi and Egyptian regimes; and a general flare-up in the Middle East. The longer the bombing continues, the greater the danger, while leaving bin Laden untouched in his bomb-proof cave."

Another important voice raised against the current strategy was that of Imran Khan, head of the Pakistan Movement for Justice Party. Khan has impeccable connections into the highest echelons of the British establishment, including, ironically, into those circles which had helped build up the bin Laden/"Afghan resistance" capability in the first place. He is married to the former Jemima Goldsmith, daughter of the late Sir James Goldsmith, one of the main bankrollers and controllers of the "resistance," linked to Britain's MI6 foreign intelligence service.

On Nov. 2, Khan was the guest speaker at the London Royal Institute of International Affairs (RIIA, or Chatham House), the leading policy think-tank in Britain. He warned that the bombing of Afghanistan had put Pakistani President Gen. Pervez Musharraf under siege, especially as the country was "on the verge of bankruptcy." Khan said the mood in Pakistan has swung strongly against the Anglo-Americans, and that "sympathy has moved to the people of Afghanistan." Should the bombardments continue during the Islamic holy month of Ramadan (which begins on Nov. 17), Musharraf would become isolated, and possibly threatened by his own officers. This all could evolve into a major regional disaster, Khan affirmed.

Betrayal of Haq Showed Folly Of U.S. Policy

by Edward Spannaus

A devastating critique of the current U.S. military campaign in Afghanistan, has been provided to *EIR* by a journalist who spent most of the 1980s in the Afghanistan-Pakistan theatre of war, and who observed first hand and reported the folly of U.S. policy in that period. And, the conclusion that one can draw from his remarks, is that the same mistakes are being made again.

Author Kurt Lohbeck's 1994 book, *Holy War, Unholy Victory,* was a searing account of the 1979-89 war against the Soviet occupation; a war in which the United States and Britain consistently supported, trained, and armed the most fanatical, anti-Western groups in Afghanistan to fight against the Soviet occupation. Readers of *EIR* know that this was part of the Zbigniew Brzezinski "arc of crisis" policy—to promote radical Islamic fundamentalism as a battering ram against the Soviet Union, but also against the very concept of the modern nation-state. It is this policy, which is responsible for the rise of the terrorist networks now symbolized by the Afghanistan-based al-Qaeda and its figurehead leader Osama bin Laden.

Kurt Lohbeck also has a unique historical connection with both Afghanistan and Iran through his late father, Don Lohbeck, the biographer of Gen. Patrick J. Hurley. Hurley served as President Franklin Roosevelt's personal emissary to those countries during the latter years of World War II. Through Hurley's efforts, Roosevelt planned for the postwar development of both countries, as a means of getting them out from under the yoke of British imperialism. (See "How FDR Planned To Outflank The British," *EIR,* Oct. 13, 1995, reprinted in "How To Defeat Global Strategic Warfare," LaRouche in 2004 campaign, September 2001.)

During the 1980s, Lohbeck became an unabashed supporter of rebel leader Abdul Haq, and maintained contact with him after the war, talking to him by phone at least once a week for the past eight years. Lohbeck was part of a small group who had been trying for more than a year, in contacts with the Pentagon, the U.S. State Department, the CIA, and with staffs of the Vice President and President, to obtain support for a plan to topple the Taliban and hand over these "wacko Arabs" —referring to bin Laden and his al-Qaeda network. "We received some sympathy from individuals, but zip as far as any support . . . nothing ever happened," Lohbeck told *EIR*.

It has been reported elsewhere, that there were major factions in the U.S. government and intelligence community supporting the Taliban up through at least this past Summer, if not up until Sept. 11. This is indirectly confirmed by a recent account given by former National Security Advisor Robert McFarlane, who was also working to obtain support for Haq against the Taliban over the past year. In one meeting with CIA officials earlier this year, McFarlane says that he was told (in paraphrase): "We don't yet have our marching orders concerning U.S. policy; it may be that we will end up dealing with the Taliban."

Now, we will pick up Lohbeck's account, as provided to *EIR,* of the betrayal of Abdul Haq, which led to Haq's capture and execution last month. As will become clear, Lohbeck is enraged that the CIA failed to provide support and security for Haq, whom Lohbeck regards as the only Afghan opposition leader of sufficient stature to have been able to lead an effective opposition to the Taliban.

Haq's Mission

In mid-August, weeks before the Sept. 11 attacks, Haq decided to go ahead, without U.S. support, to return to Afghanistan to mobilize opposition forces. In late September, Haq went to Peshawar, Pakistan, from Dubai, where he had been living and working as a businessman. From there, according to Lohbeck, Haq began working to put together an anti-Taliban alliance of anti-Soviet commanders and tribal chiefs. On Oct. 20, two CIA representatives met Haq in Peshawar. "With them was a Pakistani translator . . . obviously from ISI," Pakistan's Inter-Services Intelligence, Lohbeck states, adding that Haq, who spoke perfect English, didn't need a translator.

After Haq went into Afghanistan, he encountered two Americans—not the same two whom he had met in Peshawar. Lohbeck said one was from the CIA, and the other was either CIA or from MI6 (British intelligence), and with them was another Pakistani translator, clearly from Pakistan's Inter-Services Intelligence. Those three left during the evening of Oct. 25, and within 45 minutes, Haq was surrounded by Taliban, and was captured a few hours later. Haq was executed, and his body thrown on the street in Kabul, on Friday, Oct. 26.

"There's no doubt in my mind," Lohbeck says: "ISI told the Taliban where he was and where he was going, and they found it out from the CIA translators."

"Abdul never talked to ISI. Never, ever, ever, ever," Lohbeck emphasized. "ISI told the Taliban where he was and what was happening. And now he's dead. Can I be any stronger?" he said.

Lohbeck does not directly accuse the CIA of betraying Haq to the ISI and the Taliban, but he blasts the Agency for failing "to provide operational support for a mission that was in their best interests." As to charges that Haq was working for the CIA, Lohbeck scoffs, saying: "Abdul Haq never worked *for* them, never worked *with* them, and never got money from them. But they knew what he was doing, and it was in their interests, and they didn't back him up."

This was not the first time that Haq could not get backing from the United States. During the 1980s Afghanistan war, the British, and the U.S. CIA, military, and State Department consistently supported the most radical anti-Western groups. This was justified in part by the assertion that "fanatics fight better," and much of this was at the behest of the Pakistani Inter-Services Intelligence, through which most of the U.S. military aid and support for the Afghanistan resistance was channelled. The bulk of U.S. aid ended up with the most fanatical and corrupt factions in Afghanistan, such as that led by Gulbuddin Hekmatyar, who were also deeply involved in the drug trade.

"We had the mistaken idea that fanatics fight better than patriots," Lohbeck told *EIR*. "Tell that to the men at the bridge at Lexington."

"So now we're stuck with the fanatics. We made them, we bought them, we paid for them, we supported them; now we have fanatics, and we are ignoring the patriots. How stupid can we be?" he asked.

Parenthetically, it is important to note, that although the 1980s operation supporting the Afghan mujahideen was seen as a "CIA" operation, the bulk of the $3 billion in official U.S. funds for that effort came out of the Pentagon's "black budget," not from the CIA.

Intelligence Failure

Lohbeck believes that one of the biggest problems, is that "we have an eight-year gap in our institutional knowledge of Afghanistan," because the United States walked away after the Soviet withdrawal in 1989. "We are now trying to play catch-up in a few short weeks. We are ignoring the people—Afghans and Americans—who could be helpful."

Referring to current U.S. intelligence teams working on Afghanistan, Lohbeck states: "The new breed of cowboys has no institutional knowledge of the neighborhood. We're not even contacting the last generation of cowboys; as bad as they might have been, at least they know more than these guys do." As to the CIA, Lohbeck says it "has become so bureaucratized, that they don't have a mission, much less a means of accomplishing that mission."

Lohbeck urged that U.S. intelligence should return to the model of the OSS—the World War II Office of Strategic Services—"and get away from this stupid bureaucracy." In recent years, no intelligence officer would want to be posted to Kabul, or Islamabad, or Marakesh, or Khartoum, or Algiers, because it would be a bad career move, Lohbeck explained, adding that OSS head Col. William J. Donovan "would have put people there, as his eyes and ears."

Later in the interview, Lohbeck returned to this theme, saying, "If we revert to a new OSS, then that intelligence operation has to work in tandem with our political operation, not as a private, separate government. It's this secret government-within-a-government that has gotten us into trouble."

The U.S. Bombing Campaign

Asked for his assessment of the current U.S. military campaign in Afghanistan, Lohbeck responds: "We're in a mess. The first five weeks of our war are identical to the five first weeks of the Soviet invasion; we have not hurt the Taliban significantly." All that the bombing is accomplishing, Lohbeck says, is angering the people on the ground who otherwise oppose the Taliban. (It has been reported by other sources, that Abdul Haq, in his meetings inside Afghanistan, was besieged by citizens outraged at the U.S. bombings and the civilian deaths the bombings are causing.)

"If we don't coordinate with Afghans, who have demonstrated their patriotism with ten years of war against the Soviets; . . . if we get bogged down like the Soviets did, then we are beyond stupid."

As to the Northern Alliance, to which the bulk of U.S. efforts are now now directed, Lohbeck describes them as "a nice street gang," who "have an influence in a little bit of their neighborhood" in the north, but who can never control or govern the whole country. "They are a piece of the pie; they are not the pie."

"We have to use the Pushtuns; it's a Pushtun nation," Lohbeck stresses, and "we're *not*" doing that. As to Hamid Karzei, another opposition leader in the south, Lohbeck assesses him favorably, but he cautions that Karzei is a regional figure, not a *national* figure, as was Abdul Haq.

Regarding the situation with Iran today, Kurt Lohbeck says, "We have a 'Nixon-goes-to-China' opportunity here; we have the opportunity to repair situations with Iran, and if we miss this and don't take advantage of it, then, down the road, we're going to regret that we didn't do it. . . . We don't have to love the ayatollahs, but Iran is Iran. For us to isolate them, when we now have an opportunity to create dialogue, is stupid."

Not Like Hitler . . .

Concluding the interview, Lohbeck declared: "I don't want my country to lose. I want my country to be victorious. But I don't want us to be victorious like Hitler moving into Poland. I don't want us to be victorious like Mao Zedong in Manchuria."

"I want us to export the ideals of freedom and individual liberty. And that's what the people of Afghanistan are begging for," Lohbeck said. "Those poor people. Ten years of the Soviets bombing the hell out of them, six and one-half years of the Taliban imprisoning them. Why should they now hate us? Why don't we export those ideals of freedom?"

Returning to the death of Abdul Haq, Lohbeck declared: "I lost my best friend, but their country lost a patriot. They lost the Nathan Hale of their country. . . . It's a tragedy."

The Northern Alliance: With Whom Do They Stand?

by Ramtanu Maitra

As U.S. Secretary of Defense Donald Rumsfeld told U.S. ally Pakistan that bombs will continue to fall on Afghanistan through the Muslim holy month of Ramadan (Nov. 17-Dec. 17), many in the region have begun to frown. Their worry relates to the efficacy of the Northern Alliance, the non-Pushtun opposition to the Taliban in Afghanistan, in whose support these bombs are being dropped. So far in five weeks of bombing, the Northern Alliance has not been able to take advantage of the carpetbombing cover to make any headway.

The capture of the capital, Kabul, by the Taliban on Sept. 26, 1996, quickly realigned political forces within Afghanistan and the region. The non-Pushtun forces allied again, as they had in forming the Northern Alliance in 1992. The Northern Alliance was composed of the ousted ethnic-Tajik President, Burhanuddin Rabbani, the late Commander Ahmed Shah Massoud, and their Jamiat-e-Islami forces, along with Gen. Abdul Rashid Dostum and the ethnic-Uzbek Jumbish-e-Milli Party. A smaller group, represented by Hezbe Wahadat, a Shia Muslim faction, also operates on behalf of the Northern Alliance in Herat province.

The Northern Alliance is headed nominally by Rabbani, who held power with de facto Defense Minister Ahmed Shah Massoud—but Massoud was assassinated, allegedly by al-Qaeda operatives, in Afghanistan on Sept. 9, two days before the attacks on the World Trade Center and Pentagon. Massoud, a favorite of Iran, Russia, India, Tajikistan, France, and Britain, was a renowned commander who fought valiantly against the invading Soviet troops in the 1980s.

Since Massoud's death, the leadership has been passed on to Gen. Mohammad Fahim, a deputy to Massoud, but not a natural successor. Within the Northern Alliance, three others vie for the top post. They are: Gen. Abdul Rashid Dostum of Jumbish-e-Milli, Gen. Ismail Khan of Herat, and Rasool Sayyaf, a Pushtun. It is evident that General Fahim does not control the three. The situation remains practically unresolvable, since Dostum is backed by Turkey and Uzbekistan, while Ismail Khan's godfathers direct his moves from Tehran. As long as Massoud was alive, the differences were mostly kept under control, but not so now.

In any case, Pakistan has made it a point never to allow the Northern Aliance to become a coherent military force, and Pakistan has succeeded.

A Changed Geometry

In 1995-96, when the Taliban began to emerge as a power, with the help of Pakistan's military and intelligence support, and Saudi and U.S. money, Washington threw its support quietly behind the orthodox Islamic group. Washington's rationale, which turned out to be the fruit of deception, was that the Taliban, despite their "backwardness," would allow pipelines carrying oil and gas fom Turkmenistan to go through Afghanistan. This would benefit not only U.S. oil companies, but also consumers worldwide. Washington also "assumed" that the Taliban would eradicate opium poppy cultivation in Afghanistan, in part based on what the Taliban were then saying. We now know that none of that happened.

On the other hand, the Northern Alliance became a natural repository of arms and political support from India, Russia, and Iran. Russia wanted the Northern Alliance to keep Central Asia, Chechnya, and Azerbaijan free of the Taliban; India wanted the Northern Alliance to undermine Pakistani-U.S. influence over Afghanistan; and Iran strongly opposed the rise of an orthodox Sunni Muslim sect taking power next door with the help of Iran's sworn enemies—the United States and Saudi Arabia. Such was the geopolitical equation that lasted for five years—till Sept. 11, when things changed rapidly.

Now that Washington is bent on destroying the Taliban for harboring its number-one enemy, Osama bin Laden, the U.S. is also backing the Northern Alliance, and thus currying favor with Russia. Such a move has developed a new geometry, and a new round of deceptions are being put in place. The new geometry poses a serious threat to Pakistan, which will do almost anything to prevent the setting up of an anti-Pakistan, pro-India, pro-Russia power on its borders. As a result, despite what Washington and the U.S. media claim, Pakistanis are pouring into Afghanistan to fight the Northern Alliance and prop up the Taliban. Many of these Pakistanis, though widely portrayed as "tribesmen," are military regulars.

It is evident that the Northern Alliance, without an undisputed leader and with a record of being an "also-ran" for the last five years, is finding it difficult to break through the 12,000-troop screen thrown up by the Pakistanis, Arabs, and Afghans between the Northern Alliance positions and Kabul. Reports indicate that the United States is ready to land 2,000 troops, now based in Tajikistan, on the front lines, once the Northern Alliance clears up some part of northern Afghanistan for an operational base. In order for this to happen, the Northern Alliance must capture Mazar-e-Sharif, a strategically located town in northern Afghanistan.

It is likely that the intense spell of U.S. bombing will achieve this small goal. But how this will gel the Northern Alliance into a cogent fighting force, is anybody's guess. The Indian Defense Minister, George Fernandes, making caustic remarks about the U.S. bombing prior to Secretary Rumsfeld's arrival in India, said it is indeed a very costly way to melt the mountain snows of Afghanistan. Washington prays that Fernandes is simply being facetious.

Interview: Kikaya Bin Karubi

Congo Dialogue Seeks To End Barbarous War

The wars which raged continually in the Democratic Republic of the Congo for more than three years until early in 2001, caused the genocide of millions of Congolese: 2.5 million according to the International Rescue Committee's report this past May; more than 4 million excess deaths from war and disease according to Congo officials.

The United Nations investigative panel was compelled to report that this genocide was a war by proxy, in which "rebel groups" were a cover for invading forces of Uganda and Rwanda stealing Congo's gold, diamond, and other mineral wealth; and Rwanda and Uganda in turn were acting as favored "marcher-lords" for Anglo-American and other global financial interests.

Following the death of Congo President Laurent Kabila in January and a cease-fire in the Spring, EIR *on June 1, 2001 published a call by Congo's Ambassador to the United States, Dr. Faida Mitifu, for the invading armies to withdraw at once.*

The Minister of Information of the Democratic Republic of the Congo, Kikaya Bin Karubi, was in Washington at the beginning of November, and was interviewed on Nov. 1 by Lawrence K. Freeman.

EIR: There was recently a meeting of the Inter-Congolese Dialogue that took place in Ethiopia. The meeting apparently broke down; there were accusations by the rebel groups against the government. Could you tell us what was the purpose of this dialogue? And, what is the reason that it had to adjourn so quickly?

Bin Karubi: Well, the Inter-Congolese Dialogue is part of the Lusaka peace protocol process. As you may know, in 1999, on the 10th of July, 1999, we signed an agreement in Lusaka [Zambia], to end the civil war in the Congo. And, that cease-fire agreement calls for an Inter-Congolese Dialogue. The cease-fire is holding, and the next step would be for Congolese from all walks of life—belligerents and as well as the opposition groups—to meet around a table and iron out differences in order to look for a way forward. That's the purpose of us meeting in Adis Abeba [Ethiopia] a few weeks ago.

EIR: What caused the meeting to adjourn so abruptly?

Bin Karubi: You know, there is a facilitator, an external facilitator, and, in this case, it's the former President of Botswana, Ketumile Masire, who was appointed by the OAU [Organization of Africa Unity] to facilitate the Congolese Dialogue. So, it's his responsibility to bring all the participants to the dialogue. And, in this case, we all agreed, in the pre-dialogue that took place in Gaborone, Botswana, to bring in the other interested parties—understand?—civil society, the churches, the lawyers, the medical doctors, the NGOs, as well as Congolese in the diaspora, so that we have an all-inclusive dialogue; to give peace a chance, really, because, we, as a government who believe that, if only those who have weapons, only those who are fighting, only the belligerents—if only the belligerents meet, we will not reach a durable peace. Because we'd be sending the wrong message, saying that, in order to be heard, you must take up weapons against your own country. That's why we said that. We told the facilitator that: We must call an all-inclusive Inter-Congolese Dialogue.

When we got in Adis Abeba, he did not do that. He just had the same people who were in Gaborone at the pre-dialogue, at the dialogue itself. So, we said, "No. As long as you don't bring the NGOs, the religious groups, the civil society, women's organizations, Congolese in the diaspora, we're not going to sit. We don't call this a dialogue." That's what caused problems.

EIR: So, then the conference adjourned after a few days?

Bin Karubi: It was adjourned after a few days.

And, I think, everybody understands us: The European Union, last week, issued a statement saying that the position of the government is quite understandable.

So, we gave the facilitator a chance, more time, to consult with the other interested parties, and, by the way, also to collect the necessary funds, because he did not have enough money. Because, we agreed to meet for 45 days, for the dialogue, but he did not have enough money to convene a dialogue for 45 days. So, he will have additional time to collect money, and also to consult with the other interested parties.

That's when South Africa came up with the idea that: "Look, we will be ready to pay for food and accommodation. We can provide the facilities in South Africa. Let all the participants come to South Africa, and we'll pay for everything." So, I think in a month's time, or so, we will be meeting in South Africa for dialogue per se.

EIR: The government is a sovereign government, with President Joseph Kabila as its chief officer. The Inter-Congolese Dialogue is to facilitate bringing other forces into the government? Or into a Congress? Or, how would it work, with the present government of President Kabila?

Bin Karubi: That's also a problem. I mean, we as the government—President Kabila's government—our understanding of the Inter-Congolese Dialogue, is a forum, whereby we are going to discuss about the structures that will—to put together structures that would rule our country, for years to

FIGURE 1

Genocidal War Divided Congo

Years of invasions set loose the Four Horsemen upon the Democratic Republic of the Congo, killing millions by war and disease. As of May 2001, they left Congo partitioned, as this map shows.

come. The problem that we have today, is that of legitimacy. We don't have the Constitution, we don't have laws, we don't have rules, you see? Let's meet together, as Congolese, put together these structures, and then, go to the people and hold elections, so that the people can decide who's going to be *their* leaders for tomorrow.

EIR: And this would be for Parliament, not for the Presidency?

Bin Karubi: Well, we don't know. In the Congolese Dialogue, we'll decide, whether the Presidency is a vacant post. I don't think it is now, because there is a legitimate government, in the name of Maj. Gen. Joseph Kabila. But, of course, the Presidency will also be put to the test: We'll ask the people to elect a President, at some point.

EIR: Has all the fighting by the rebel groups and the insurgent groups come to an end in the Congo?

Bin Karubi: Yes. The cease-fire is holding, in the front lines. You know, along the front lines, we are not fighting. But, I

President Kabila is appealing . . . to the international community to put pressure on those people who are sponsoring this war. You and I know very well that Rwanda and Uganda do not have the means to stage a war. So, somebody's sponsoring them, somebody's helping them. And, it is high time that people stopped this barbarism.

understand that all rebel groups and occupation forces, in all localities that they are holding, they are having a hard time to control these places, because the population is resisting the occupation of the country.

EIR: That's what I was going to ask you about, because you have the main rebel groups that are controlled by Uganda and Rwanda, are still occupying a very large territory. Last time I was told, it was about 50% of the country. Are they still occupying the territory? Are they running the government in these areas? Are they expected to leave, at some early point?
Bin Karubi: Yes, they are occupying these territories. They are expected to leave. The Lusaka peace protocol says that, after the Inter-Congolese Dialogue, the next step would be, what we call, the DDRR, meaning: disengagement, disarmament, rehabilitation, and relocation, of forces, you see. So, we have to demobilize them, disarm them—all the rebel groups—and then relocate them, wherever they come from. So, at that point, foreign troops are supposed to withdraw from the Congo.

EIR: At this point, would you say that, in these areas controlled by the rebel groups, that there's a dual power, in the sense that they control this territory, even though the country is still sovereign to the Democratic Republic of Congo, with President Kabila in charge? Are there two governments, in these territories?
Bin Karubi: No, there are not two governments! There is one government, with one part of the country occupied by foreign forces.

EIR: Are these foreign forces carrying out the responsibilities of government for the people in those areas?
Bin Karubi: No! They are there; they are rebel forces. What they are doing is well known by the whole world: They are looting.

EIR: Yes. Well, that was the point, that there have been years of looting. Has that looting stopped at this point, and are these rebel forces simply holding territory, waiting for the outcome of the Congolese dialogue?
Bin Karubi: No, they're looting; they're wiping out all the resources of the Congo, selling it to whoever wants to buy them. Those are just rebels—they are looters, that's what they are.

EIR: Specifially, in terms of the MCL [Congolese Liberation Movement] and the RCD-Goma [Congolese Rally for Democracy], are they continuing to carry out looting policies, in coordination with Uganda and Rwanda?
Bin Karubi: Yes, they are. And that's what we're telling the international community, to impose sanctions, or to put pressure on them, to stop that, which is really a shame in today's world, to see such things happen!

EIR: Those conditions existing, how is the economy of the Congo able to function?
Bin Karubi: Well, the economy is in shambles. I mean, we have no economy, now. We're doing our best in the parts that we control, to control inflation and to stabilize the macroeconomic sector—with some results, by the way. In the four months in power, we have been able to stabilize the exchange rate between the Congolese franc and the U.S. dollar. We've been able to stabilize the price of fuel, transport, and basic commodities. So, I think, we're doing well, as far as the economy is concerned. But, the same cannot be said, in the parts that are controlled by the rebels.

EIR: There was a report at the end of the war, that, at one point, 80% of the population was endangered, because of the medical conditions and lack of food. And, there was another report, that 16 million people were in danger, their existence was threatened. Have food and medical relief been given to the population, following the war; or has that not been possible, because of the lack of infrastructure?
Bin Karubi: Well, the infrastructure is there, but it's just obsolete, so to speak. And the hospitals are in very bad shape, but there are some organizations that are trying to do their best. I mean, we've got so many NGOs there, that try to help. There's also programs by the World Health Organization. But, all in all, the health situation is quite bad.

EIR: Would you be willing to give any kind of estimate of the number of people whose lives are threatened by the poor conditions that exist following the war?
Bin Karubi: Oh, if you want figures, the International Res-

cue Committee estimated that 3.5 million people have died, either directly or indirectly, as a result of this war. So, those who are burdened indirectly—that means that people go hungry, people get displaced, and people are not given an opportunity to carry on their lives normally, because of this war—so, if 3.5 million have died, that means that there could be the same number of people living in dire poverty.

EIR: So, at this point, there is a real danger that relief will not get to all the people who need it, because of these economic conditions.
Bin Karubi: Well, there are some organizations that are doing a good job. They are going all the way to the places where there are people who need help, and make sure that they get that help. But, those efforts, that are being done by those non-governmental organizations, we hope that more will be done.

EIR: What actions does President Kabila see, in the immediate future, as necessary to begin reviving the Congo?
Bin Karubi: First of all, President Kabila is appealing for peace. He's appealing to the international community to put pressure on those people who are sponsoring this war. I mean, you and I know very well that Rwanda and Uganda do not have the means to stage a war. So, somebody's sponsoring them, somebody's helping them. And, it is high time that people stopped this barbarism.

EIR: Have there been any reports of who is behind these groups?
Bin Karubi: It's hard to pinpoint anyone, but we know very well that the loot that they are taking from the eastern Congo is being sold by some companies and some multinationals, and these are the people who are fueling this war. And, we are appealing to Western governments to put sanctions on the loot that comes from the Congo: Stop buying it! Or, put pressure on these companies that are doing business with the rebellion. That's one way of stopping it from happening.

EIR: What information do you have that Presidents Yoweri Museveni of Uganda and Paul Kagame of Rwanda would actually honor any agreement, and remove their occupation forces from the eastern and northern part of the Congo?
Bin Karubi: Well, they have promised. They have promised to do exactly that. But, I cannot speak for President Kagame or President Museveni. It's for themselves, themselves: They've got consciences, and it's for them to prove that they respect their word.

EIR: So, President Kabila is asking for peace?
Bin Karubi: He's asking for peace, and once we have attained peace, the Congolese people will have a chance to go on with their lives, and develop their country.

EIR: And what about the other countries that were brought in at the request of the government, to defend them against these invading forces? Are they leaving the Congo as well, or are they still remaining?
Bin Karubi: They are leaving. As a matter of fact, Namibia has pulled out completely; we don't have one single Namibian soldier on our soil. We've got some Angolans, and some Zimbabweans. And, they're there; they came at our invitation to help us defend our country.

The fact of the matter is, that we inherited a country that was completely destroyed by the former dictator Mobutu. He destroyed every single aspect of life in that country, and, as a result of that, we don't have an army. That is why we went into an alliance. We called our brothers from the SADC [Southern Africa Development Community] region to come and help us fight this war. And, that's why Zimbabwe, Angola, and Namibia are in the Congo.

But, as I said, Namibia has pulled out completely. Zimbabwe's still there. Angola's got some symbolic presence in the Congo. But they have all said, time and again, that they will pull out, when the time comes.

EIR: And, at this point, you don't expect that the rebel occupying forces will pull out, until after more action is taken with the disarmament policy and the intervention by the UN?
Bin Karubi: Once again, I can't speak for them. I mean, we hope that they will respect what they said. We signed an accord, we signed an agreement, the international community was there, and we hope that they will respect whatever they signed.

EIR: What kind of support are you getting from the government of President Bush in these efforts, and from other Western countries?
Bin Karubi: We've met with officials from the Bush Administration, and we've got support. They have told us, that they believe that the time has come to stabilize the Central African region, especially in light of what's happening now in the world. If that place, that jungle place of Central Africa stays in turmoil all the time, it will be fertile ground, even for the terrorism that we are fighting today.

EIR: That's certainly true. The conditions throughout all of Africa, right now, are very poor, to say the least.
Bin Karubi: That is correct, yes.

EIR: That's one of the reasons that Mr. LaRouche, the founder of this magazine, has called for massive infrastructure development for nations throughout Africa, especially Sub-Saharan Africa.

Thank you very much for this report. I know you have to travel back to your country tomorrow, and I appreciate that you took out some time to discuss this with us.
Bin Karubi: Thank you very much.

The 'Mega'-Maniacs Steering Sharon's Mideast War Drive

by Scott Thompson and Jeffrey Steinberg

On Oct. 30, Edgar Bronfman, Sr. delivered a speech at the Jerusalem Theater, opening the 11th Plenary Assembly of the World Jewish Congress, in which he called, in effect, for a "Warsaw Ghetto" final solution to the Israel-Palestine conflict. Using somewhat more discreet language, Bronfman declared: "Settlements on the West Bank which cannot be defended should be dismantled. The Intifada is going to stay, and we can negotiate endlessly and get nowhere. If there is no peace, Israel should separate from the Palestinians." He labeled the Israeli presence inside Gaza "a mistake," and, according to the Oct. 31 *Jerusalem Post,* called for the construction of a fence, surrounding a Palestinian territory, the size and shape to be determined by Israel.

Bronfman insisted that Israel must say to the Palestinians: "Do what you want to do, but don't cross the line." He concluded, if any suicide bombers attack Israel, "we have the moral high ground, and we will devastate the enemy."

Bronfman's call for unilateral separation—under conditions imposed unilaterally by Israel—at the keynote plenary of the WJC assembly, signaled that a drive is now under way to implement this proposal. It is a policy that was widely circulated during the Summer, after Bush Administration pressure had forced Prime Minister Ariel Sharon and the hardliners inside the Israeli Defense Force (IDF) command to back down, for the time being, from their plans to provoke a major escalation in violence, through a July 29, 2001 Temple Mount Faithful assault on the Islamic holy sites in Jerusalem.

At the time, Lyndon LaRouche had issued a prescient warning that the IDF radicals were preparing to play the "Temple Mount card" to provoke a major religious war in the Middle East—not on behalf of Israeli-based interests, but on behalf of the Anglo-American faction pressing for a "Clash of Civilizations" new Thirty Years War, to engulf all of the Eurasian region in bloodshed and chaos. The provoking of such a Clash of Civilizations has been the stated goal of Zbigniew Brzezinski, Samuel Huntington, and Bernard Lewis for years.

The unilateral separation scheme, dubbed by its proponents "a war and then a wall," was surfaced on Aug. 10, 2001, in a *Washington Post* op-ed by *Newsweek* magazine editor-in-chief Fareed Zakaria, who demanded that Israel initiate a "unilateral separation." On Aug. 16, *Washington Post* columnist Charles Krauthammer called for an Israeli invasion of the West Bank and Gaza "Area A" territories, with the objective of wiping out the infrastructure of the Palestinian Authority, seizing weapons caches and safe houses of Hamas and Islamic Jihad—and then occupying the areas only long enough to construct a high wall, permanently separating the Palestinian area from Israel.

The next day, Aug. 17, *Washington Post* syndicated columnist George Will, who is also a member of the international editorial advisory board to the Hollinger Corporation, spelled out the scheme in the most explicit detail, in an op-ed titled "War and Then a Wall."

"A short war—a few days: over before European and American diplomats' appeasement reflexes kick in—should have four main objectives," he wrote: Kill or capture "the terrorists"; destroy the Palestinian Authority's "military infrastructure"; destroy "other physical infrastructure useful to the Palestinian Authority including all newspaper and broadcasting facilities"; and then unilaterally define Israel's border by building a wall. Will's map envisioned Israeli permanent annexation of all of Jerusalem.

The same day that the Will column was published, in what appeared to be a coordinated move, the Israeli daily *Ha'aretz* announced that four Knesset (parliament) members (MKs), including new Cabinet Minister Dan Meridor, of the Center Party, announced the launching of a non-partisan "new movement" to force unilateral separation. The separation plan was drawn up, according to *Ha'aretz,* by unnamed reserve IDF officers, and was presented to Prime Minister Sharon by Trade and Industry Minister Dalia Itzik. The "electronic wall" envisioned in the Meridor-Itzik plan (also endorsed by Likud Party MK Michael Eitan and Labor Party MK Haim Ramon) incorporated Jerusalem and a 90-mile segment of the West Bank in the permanently annexed Israeli territory.

Such a unilateral separation, whether it began with a massive IDF military assault on the Palestinian Authority or not, would be a certain recipe for Mideast War, a fact hardly lost on the authors of the scheme.

In short, Bronfman kicked off his last session as President of the World Jewish Congress by demanding that Israel launch a new Mideast war—at the very moment that the United States is preoccupied with an already out-of-control war in Afghanistan and the ongoing irregular warfare assault against the U.S.A. itself, which Lyndon LaRouche has identified as nothing less than a coup d'état, directed by a powerful "enemy within."

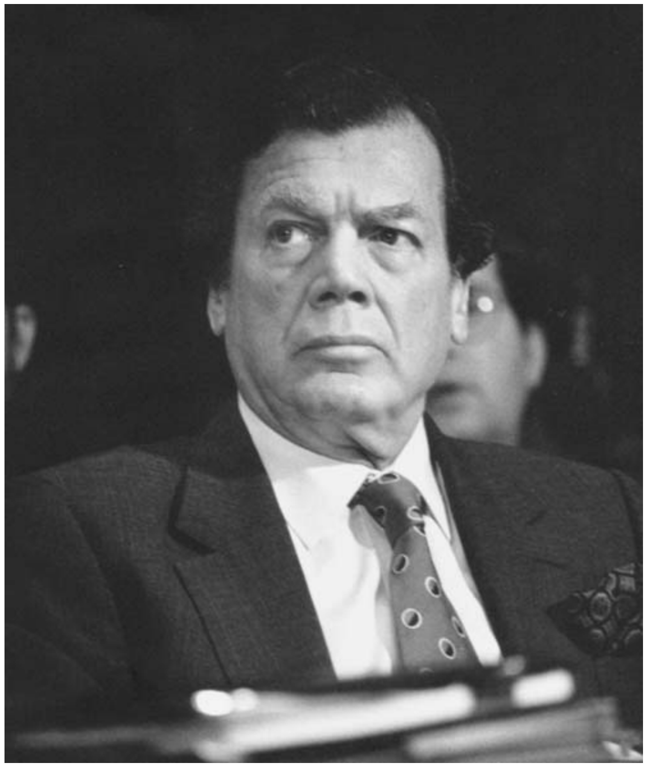
The 'New Sanhedrin'

Bronfman's call for war was not just issued in his capacity as President of the WJC. It was issued on behalf of the "Mega" Group, a super-secret, by-invitation-only group of powerful American and Canadian "mega-billionaires," who meet behind closed doors twice a year, to set the overall policy for the "official" Israel Lobby in North America, and deploy billions of dollars a year in "charitable" cash (see "Israeli Spies: 'Mega Was Not An Agent—Mega Was the Boss,'" *EIR* Aug. 31, 2001).

Mega Group was launched in 1991 by Seagrams Corp. director Charles Bronfman and Victoria's Secret owner Leslie Wexner. Among the known charter members were Edgar Bronfman, Sr. (Charles' older brother and Seagrams co-chairman), U.S. Healthcare founder Leonard Abramson, hedge fund manager and "New Democrats" moneybags Charles Steinhardt, former Purple Gang rum runner-cum oil tycoon Max Fisher, bagel magnate Max Lender, Baltimore real estate developer Harvey "Bud" Meyerhoff, Tulsa investment broker Charles Schusterman, and Loews Corp. chairman Laurence Tisch.

As *EIR* first reported on Aug. 31, some Mega Group members are chary about flaunting their power in public. Charles Bronfman told the *Wall Street Journal*'s Lisa Miller, "From the beginning, we didn't want to be seen as a threat to anybody. . . . We don't want to be seen as the Sanhedrin (the highest court of the ancient Jews)."

Other charter members are less shy about promoting their power grab. On Nov. 6, 2000, *Link* magazine published an interview with Michael Steinhardt by Michael Massing. Massing observed, "Michael Steinhardt likes to poke and prod. In the world of Jewish philanthropy, he is known for speaking his mind, and, when I dropped by his office, he did



Top figure in the Mega Group, Edgar Bronfman is now a leading proponent of unilateral separation by Israel, creating a "Warsaw Ghetto" Palestinian homeland surrounded by a fence.

not disappoint." Massing continued, "When asked about the current state of Jewish philanthropy, Steinhardt . . . declared, 'I feel that the durability of some American philanthropic organizations is far greater than is justified by their effectiveness. It's a shame some of these organizations don't just go away.'

"Asked to be more specific," Massing continued, "he did not hesitate: 'The American Jewish Committee, the American Jewish Congress, the Anti-Defamation League, and the Wiesenthal Center, which are all dedicated to defense, to protection against anti-Semitism, to Holocaust memory, rather than to addressing the needs of the next generation.' "

There may have been more method than madness to Steinhardt's frontal assault against the biggest and most prominent of the American Jewish tax-exempt charitable and educational agencies. On Feb. 17, 1999, *Philanthropy News Digest* reported that the three largest Israeli fundraising organizations in North America, the United Jewish Appeal, the Council of Jewish Federations, and the United Israel Appeal, had merged into one single mega-charity, called the United Jewish Communities. The first Chairman of the UJC, which raised $1.9 billion the previous year, was Charles Bronfman, the co-founder of Mega Group. When his term expired this year, he was succeeded by the son of Laurence Tisch, another charter member of the Mega Group.

Ariel Sharon, Israel's Prime Minister and a prime beneficiary of Mega Group funding and political machinations to wreck the Israel-Palestine peace process.

One of Mega Group's other power centers is the Conference of Presidents of Major American Jewish Organizations, whose executive vice president, Malcolm Hoenlein, has been a consultant on a number of Mega Group projects. The just-retired president of the Conference, perfume magnate Ronald Lauder, has not responded to calls from reporters asking whether he is a member of the Mega Group. Lauder is one of the biggest financial boosters of both Ariel Sharon and Sharon's Likud rival, former Prime Minister Benjamin Netanyahu.

Mega Group members also dominate the board of trustees of the Washington Institute for Near East Policy (WINEP), the semi-official Israel lobby think-tank in Washington, that has been aggressively pressing for an all-out war against Iraq, as a cornerstone of any successful "war against terrorism." WINEP founder Martin Indyk was one of the most important figures inside the Clinton Administration, sabotaging the July 2000 Camp David summit between then-Israeli Prime Minister Ehud Barak, Palestinian Authority President Yasser Arafat, and President Bill Clinton.

The Mega members on the WINEP board included, as of 1999: Charles and Edgar Bronfman, Max Fisher, Harvey Meyerhoff, Charles Schusterman (now deceased, but apparently replaced in Mega by his wife Lynn), and Michael Steinhardt.

A Deal With Sharon

The last known meeting of the Mega Group occurred at the Manhattan mansion of Edgar Bronfman on May 3-4, 2001. According to a few scant news accounts, the Mega Group's ranks appear to have swelled from an initial core of 20 members—when it was formed in 1991 by the Bronfmans and Wexner—to nearly 50 super-rich activists today. *EIR* has so far been able to confirm the identities of a dozen members of the Mega Group.

However, a review of published material, combined with interviews with sources and with several Mega Group members and associates, provides a damning picture of the group's activities in recent months, and confirms that they are four-square in the camp of those pushing for a "Clash of Civilizations."

Soon after he was sworn in as Israeli Prime Minister, Ariel Sharon held a private meeting in Israel with Mega Group member Leonard Abramson.

At the meeeting, a scheme was hatched to launch a propaganda offensive on behalf of the Israeli war hawks.

Back in the United States several days later, on Feb. 28, 2001, Abramson met with fellow-Mega Group members Edgar Bronfman and Michael Steinhardt. The three men launched "Emet" (the Hebrew word for "truth"), as both a private propaganda arm of the Prime Minister's office, and a recruiting operation for a future generation of Israeli agents-of-influence (and possible spies) inside the United States and Canada.

Michael Steinhardt told reporters Yoav Appel and Melissa Radler of the Hollinger Corp.-owned, pro-Sharon *Jerusalem Post* on March 2, that Emet is "not public relations. It's more of a think-tank."

News reports had indicated that Abramson, Steinhardt, and Bronfman had committed $7 million to a start-up fund, that was to be bolstered by an initial $1 million kick-in from the budget of the Israeli Ministry of Foreign Affairs. Foreign Ministry mandarins, and perhaps Foreign Minister Shimon Peres—a longtime advocate of a just peace with the Palestinians and the Arabs—objected to the idea of a group of hawkish American Jews shaping Israel's image abroad, and leaked details of the early Emet plans to Israel Radio, claiming that the Israeli consul general in New York, Alon Pinkas, was furious at the idea. In fact, Pinkas attended one of the first Emet planning sessions in New York, and later the Foreign Ministry was forced to issue a disclaimer about the Israel Radio report.

Such is the power of the Mega Group, with its extensive ties into the English-speaking media. Not only is Mega Group co-founder Wexner a director of the Hollinger Corp., owner of the *Telegraph* newspapers in Britain, the *Jerusalem Post,* and the *Chicago Sun Times* (the Hollinger Corp. is run by Bronfman-pal Conrad Black); but the Bronfman clan holds a major stake in AOL/Time Warner, one of the biggest of the American media cartels.

On Aug. 17, 2001, the *Jerusalem Post* revealed another facet of the Mega Group's "Emet" project: the recruitment and indoctrination of another generation of North American *"tsayonim"* ("Israel's helpers," a technical term for the recruitment of informal agents, first reported by former Mossad officer and author Victor Ostrovsky). In July and August of this year, 40 college students from 27 campuses in the United States and Canada, spent three weeks at the University of Tel Aviv, receiving training to serve as "informal spokesmen" for the Sharon regime's policies, when they return for their final years of school. The program, called EMET Fellows, also known as Education for Middle East Truth, "is not a propaganda tool," Tel Aviv University President and former diplomat Itamar Rabinovich protested, a bit too much.

Mega And The Evangelicals

One of the biggest boosters of the Emet project is Zionist Organization of America President Morton Klein, a certifiable right-wing war hawk, who has also engaged in an intimate collaboration with "Christian Zionists" who are unabashed proponents of a religious war in the Middle East.

While *EIR* has not been able to confirm directly that Klein's collusion with the evangelicals is a sanctioned Mega project, the convergence of their joint efforts with the known goals of the Mega-Sharon "propaganda offensive" are highly suggestive of just such a link.

EIR first reported on Aug. 24, 2001 ("Temple Mount Fanatics Seek To Blackmail Bush," by Anton Chaitkin), that on July 30—the day after Bush Administration and other international pressure forced the cancellation of Sharon's planned Temple Mount provocation in Jerusalem—Klein, Americans for a Safe Israel founder Herb Zweibon, evangelical Religious Roundtable founder Ed McAteer, Christian Friends of Israel leader Elwood McQuade, and representatives of Pat Robertson and Jerry Falwell, held a meeting at the White House with President Bush's religious community liaison Tim Goeglein. The delegation bluntly threatened President Bush, that if he did not give Sharon an unequivocal "green light" to deal with the "Palestinian terrorist threat," the combined wrath of the Zionist lobby and the 70 million-strong evangelical Christian voting bloc would destroy the Bush Presidency—just as they destroyed George Bush, Sr.'s 1992 re-election efforts.

EIR confirmed from several participants in the White House session that the entire group had been hosted by the Israeli Ambassador to the United States, David Ivry, at a private embassy luncheon, just before they held their "tough love" session with Goeglein.

EIR will report, next week, on a Nov. 7, 2001 public/private session of the same right-wing Zionist/evangelical apparatus, sponsored by the National Unity Coalition for Israel, at which speaker-after-speaker demanded the Clash of Civilizations, and assailed the Bush Administration for abandoning Sharon and Israel.

Anton Chaitkin and Art Ticknor contributed to this report.

Who's Who In 'Mega'

by Scott Thompson

The following are brief biographical profiles of some of the leading known members of the "Mega" group; notable, is the pattern of alleged organized crime ties.

Charles Bronfman: On Feb. 19, 1999, Charles Bronfman was elected chairman of United Jewish Communities (UJC). This $4 billion cash cow subsumes 189 Jewish Federation contributors and 400 Jewish communities in North America. At a Nov. 9-13 UJC General Assembly in Washington, Bronfman will pass the chairmanship to James A. Tisch, son of Mega member Laurence Tisch.

Charles Bronfman had been co-chairman of Seagrams, until its merger with Vivendi. He is today chairman of Koor Industries Ltd., which is a high-tech holding company at the heart of the Israeli military-industrial complex. He is also chairman of Claridge-Israel, Inc., which took over Bank Hapolim, when the Israeli government privatized it. This deal was brokered by Ted Arison, an Israeli who, in the United States, built the Carnival Cruise Lines into a billion-dollar business. Arison got his financing to start Carnival from Meshulim Riklis, one of junk-bond manipulator Michael Milken's major clients, and a close ally of Israeli Prime Minister Ariel Sharon.

Leslie Wexner: This co-founder of Mega is closely aligned with some of the top British-American-Commonwealth institutions. However, Wexner's main business is The Limited, Inc.—a holding company for such firms as Intimate Brands, Victoria's Secret, and Bath & Body Works—which he founded in 1963.

Wexner is a board member of Conrad Black's Hollinger International, Inc. and of Hollinger International Publishing Inc. Lady Margaret Thatcher is chairman of Hollinger's International Advisory Board, which also includes Henry Kissinger, William F. Buckley, and Richard Perle. Hollinger owns the leading Israeli English-language daily, the *Jerusalem Post,* which has become a mouthpiece for Sharon and the radical right.

Wexner is also on the board of the Aspen Institute, an important Anglo-American world federalist think-tank.

Leonard Abramson: Abramson was the founder of the murderous health maintenance organization, U.S. Healthcare. He sold it to Aetna Insurance for $990 million. Now, apart from a stake in Israel's Bank Hapolim, Abramson owns the Maine Merchant Bank in Portland, which is a $20 million non-deposit institution, whose ostensible purpose is to make high-risk, venture-capital investments.

Edgar Bronfman: Bronfman has been president of the WJC since 1981, and has been a director of the Anti-Defamation League for many years.

The Bronfman family fortune was built by the father of Edgar and Charles, Sam Bronfman, who during Prohibition merged his Distillers Corp. in Montreal with Joseph E. Seagrams & Sons, Ltd. to supply "bootleggers" with top brand booze, becoming what Israel Shamir (writing on Mega) called a "Mafia boss." Under the successor co-chairmanship of Charles and Edgar Bronfman, Seagrams took a 24% controlling interest in DuPont. But soon after Edgar's son, Edgar Bronfman, Jr., became CEO of Seagrams, he sold off the holding, purchasing Universal Pictures and the world's largest record distributor, Polygram Records. On June 19, 2001, the Bronfmans sold Seagrams to former Lazard Frères partner Jean-Marie Messier, owner of media and communications conglomerate Vivendi, for $34 billion.

Through Seagrams and the WJC, Edgar Bronfman was a top business collaborator of some of the most prominent figures in the former Soviet Union and East Germany. Just months before the fall of the Berlin Wall and the collapse of East Germany, Bronfman was given the highest civilian award by the East German Communist Party, for his efforts to salvage the communist state.

Max Fisher: In 1985 Max Fisher, a top adviser on Jewish affairs and Middle East policy to every Repubican President since Eisenhower, founded what is now known as the Republican Jewish Coalition, of which Fisher, 93, remains honorary chairman. A March 11, 1998 *Jerusalem Post* article reports that Fisher is looking for a replacement, and among those being considered are Mega co-founder Leslie Wexner, suspected Mega member Ronald S. Lauder, and Deputy Secretary of Defense Paul Wolfowitz.

Fisher amassed his fortune as a bagman for the "Purple Gang" that smuggled Sam Bronfman's booze from Canada into the speakeasies of the Midwest. Fisher made his "legitimate" fortune in the oil retail business, through Keystone Oil, Aurora Oil, and Marathon Oil. Fisher later became chairman of United Brands (a.k.a. United Fruit), a firm accused of major narcotics smuggling from South America.

Harvey M. Meyerhoff: Meyerhoff made his money in real estate in Baltimore, Maryland, and was one of the chief architects of the transition of that city from an industrial and port center into a tourist attraction. Its port has been transformed into an Aquarium and site for a Disney Museum that features a Harvey Meyerhoff Gallery.

Steven Spielberg: One of the newest known members of Mega is Hollywood billionaire Steven Spielberg, whose Dreamworks Studio has produced such films as *Schindler's List* and *Saving Private Ryan*. Spielberg's Shoah (Hebrew for "Holocaust") has gathered a video archive of testimony from 50,000 Jewish Holocaust victims. Being late to Jewish Philanthropy, one wonders just how much Spielberg knows of the subject, as one Mega educational project for Jewish schools across the country teaches both Kabbala and Buddhist meditation.

Michael Steinhardt: Steinhardt made his fortune running a series of hedge funds. Steinhardt has been apparently dubbed the "public relations" man for Mega, as all other published interviews have been with him, although he did not return *EIR*'s calls.

Steinhardt was chairman, for a decade, of the Democratic Leadership Council. He resigned from the organization in protest over President Bill Clinton's appointment of Lani Guinier to a top Justice Department post, and refused to support Clinton's reelection in 1996, even though Clinton had succeeded him as DLC chairman.

The hedge fund Steinhardt Partners was formed by Michael Steinhardt in 1967. He boasts that one dollar invested in his firm then would be worth $462 today. Like George Soros, Steinhardt's fund suddenly lost 29% of its value in 1996, during the onset of the global financial crisis. After recouping in part with a 20% return in 1997, he closed the firm, took the money, and ran.

Steinhardt is another offspring of the Prohibition-era "Jewish Syndicate" of National Crime Boss Meyer Lansky. His father, Sol Frank "Red" Steinhardt, was a bigtime gambler and convicted jewel fence, who worked with Meyer Lansky. "Red" Steinhardt was sent to Sing Sing on a five-to ten-year sentence, a fact that Michael kept off of his resume, in order to get his start on Wall Street with the "Our Crowd" firm, Loeb Rhodes. Like father, like son—Steinhardt Partners came under SEC and Justice Department scrutiny in the early 1990s, along with Salomon Brothers, for cornering the market in short-term U.S. Treasury bond sales. To avoid jail, Steinhardt settled the case with a $50 million fine.

Laurence Tisch: Called "The King of Cash," Tisch built his fortune one step at a time. On his return from World War II, where he served in the Office of Strategic Services (OSS), precursor to the Central Intelligence Agency, Laurence Tisch joined his family's small hotel business.

Tisch, with his brother Preston "Bob" Tisch, built a major hotel chain, forming the holding company Loews Corporation, that also included a chain of movie theaters. And, Loews acquired Lorillard Tobacco in 1960, which produced Kent cigarettes.

By the 1980s of the "Predator's Ball," Laurence Tisch worked with convicted inside-trader Michael Milken, who originated junk bonds, through which Tisch gained fame for his 1986 takeover of the Colombia Broadcasting System. In 1995, Tisch had to sell off CBS to Westinghouse.

Loews Corporation today also owns CNA Financial Corporation, as well as having a controlling share in an offshore oil and gas drilling firm, Diamond Offshore Drilling, Inc., and a controlling interest in Bulova Watch Company.

Interview: Dr. W.F.K. Seymour

'Expandable' Capabilities Needed For Medical Crises

Microbiologist Dr. W.F.K. Seymour, PhD, was interviewed on Oct. 25 by Colin Lowry, Associate Editor of 21st Century Science & Technology *magazine. For 28 years, Dr. Seymour headed the Microbiology Laboratory at the District of Columbia General Hospital (D.C. General)—until the lab was shut down in January, as the phaseout of the entire facility began, a process which, except for a few clinics, was completed in June. In the early 1960s, Dr. Seymour was at the National Institutes of Health. Recently, he prepared a deposition for the D.C. City Council on emergency preparedness.*

At the time of the interview, the anthrax attack in Washington, D.C. necessitated emergency mobilization of staff and facilities, which threw the national spotlight on the need to reopen D.C. General as a full-service center.

In his wide-ranging exchange with Lowry, Dr. Seymour discussed not only certain specifics of D.C. General, but also the principle that localities must have infrastructure for health and medical services (hospitals, laboratories, decontamination capabilities, teaching cadre) in appropriate depth, meaning that there should be a built-in "expandability characteristic" for emergencies. The following is excerpted from the interview.

Q: What kind of regional emergency preparedness network really should be in place in the D.C. metro area?

Seymour: I think preparedness should all come under the disaster plan, and D.C. General was one of three hospitals that were examined and found capable of handling a biological, chemical, radiological disaster. In other words, we could take people in; they could be decontaminated, triaged, and given appropriate treatment.

Now, this may seem very simple and insignificant, but in fact, unless you are set up to do it, you could easily contaminate an emergency room, and then the hospital hallways; and then the next thing you know, the whole hospital can become contaminated—because of radiological dust, anthrax spores—if someone is carrying around something that's contaminated, or tracks a chemical around. So, having the capability to decontaminate effectively—and I think that either the State Department or the Pentagon approved us, along with George Washington Hospital and Walter Reed Army Hospital. And Walter Reed personnel actually came down, and went through the drills with us, and did training last year and the previous year—1999 and 2000. We were certified as being effective to take care of such a problem.

D.C. General has a large, potentially expandable bed capacity. When I got there, it was said to be a 1,200 bed hospital, but they quickly downsized, because they didn't have enough nurses to keep certification. But, in an emergency, what you need is space and beds, and we have five floors of wards. Each floor had three wards on it. Much of that space is now administrative office space.

D.C. General is so centrally located; it is so obvious that it be an emergency center, no matter what. Do you realize that the National Guard, which sent the MASH [mobile surgery] unit into the war in Saudi Arabia and Iraq, is located across the street, in the D.C. Armory?

The hospital was readily accessible; close to the Baltimore-Washington Parkway, Interstate Highways 295, 395, 495, and I-95, plus the Metro [regional subway system]. There are many parking areas around the hospital, and also at the RFK Stadium/D.C. Armory site, which augment the two hospital heliports. . . . With all that space, you could imagine fleets of helicopters coming in and out. [Other sites have severe limitations—ed.]

So, it's so accessible, so flexible. And, of course, you had stadium and Armory parking lots for triage activities, and other decontamination, if you had to get out. But basically, the hospital had a corridor that was set up to decontaminate people; just wash them off, and put them into fresh clothing, and admit them to the hospital.

Q: What other capabilities have we lost with the shutdown of D.C. General Hospital?

Seymour: D.C. General was a *training* hospital—everybody is talking about a community hospital—but, as a training hospital, you had professors ready for just about anything. We had several very experienced infectious disease specialists as attending medical officers and professors of medicine in the hospital. So, it's not just a community hospital; it's a training center with very intelligent and capable people.

D.C. General Hospital could also process exposures to chemical and radiological assaults, as well as biological. . . . Because it was a training facility—can you imagine, you've got medical students, interns, residents, nurses-in-training, and nurses. Now, all the people in training, all of a sudden, could be given upgrades in their assignments, and be able to do as well as physicians. So, then, you could have many more people treated per infectious-diseases attending physician, or physician in charge. That's the expandability characteristic.

Q: What about the impact on teaching itself, without D.C. General?

Seymour: I think it's a disaster, because Howard and Georgetown medical students had to be farmed out elsewhere; I don't know where they all are now. And, you find that training for minorities was a critical problem. A lot of these people would come over to the universities, having graduated from

Dr. Frederick Seymour speaks at an Emergency Meeting To Save D.C. General Hospital in March 2001.

foreign medical schools, and they are here to get training in the U.S., and they either get fellowships, or they go on to their internships and residencies. At one time, there were close to 150 or so, but over the last few years they downsized, because they didn't have enough staff to teach them.

. . . So, by not having the hospital—I believe, but I'm not a physician, so I can't say accurately, or from experience—that in the case of a disaster, or a biological warfare event, absence of the hospital would mean that many people would not be treated, and many people would be treated slowly.

That means, the whole Anacostia area—which has already been designated by D.C. Health and Human Services as underrepresented from a medical standpoint—is just *bereft* of sufficient medical facilities, and D.C. General provided help there.

Q: Do you think that the poorest part of any population is more susceptible to infection, if you are not able to provide access to treament quickly, in the case of even naturally occurring disease?

Seymour: As a generality, I would say that's a logical statement to make, yes. On a case-by-case basis, possibly not. It would depend on what kind of cases you had. But, in the worst-case scenarios, the poor people, and the majority of the people in Northeast [Washington], would be at risk—that's all there is to it. Now, how much risk, whether everyone would be hurt or not, or whether it would be long-lasting illnesses or infections, I couldn't say. It depends on what turns up.

I think what's been lost in all of the discussion—I just cannot understand it—is that you imagine the worst that could happen, and then, you set up the best you can do to respond. I don't have anybody thinking in that frame of mind. They all say, "Well, statistically, you are not likely to get ill, so we don't have to worry about it." That's true, but if you were exposed, I think you want to be able to say that anyone who is exposed, "We know what to do with you; we know where to take you, and we're ready to treat you," realizing that the majority of people would not need the treatment, but at least you can address the ones who do. But that means that you have to have a well-distributed system, that's capable of modifying its daily activities, and you can say that the hospital—at least one of three places in the District—did go through drills, did realize that they might have to handle some things. But, their main objective, at first, was decontamination. I think that everyone is assuming that they will have additional help from CDC [Atlanta-based Centers for Disease Control].

But the CDC has limited resources. They have been cut back for years. I've heard people talk who work there and they said they had to cut their budgets, because they are not going to get as much help, or supplies, or personnel. I don't understand the priorities sometimes. . . .

D.C. General had an experienced and capable trauma service. If there is going to be any kind of disaster, whether it is infection or otherwise, you may have to deal with trauma. The emergency room was experienced in getting all sorts of things. We had a couple of potential lassa fever patients that, once they recognized what needed to be done, they shipped them off to Walter Reed or George Washington, which had the capability to handle it. And, I think there was another African disease that came up, that we had a patient in the hospital, and they had that patient up on the medical ward, totally isolated. Everyone who went in was totally covered until they were able to treat them successfully, or ship the person out.

Q: From the past, have there been any specific episodes of tuberculosis, or any diseases coming into the capital, that you dealt with?

Seymour: We were involved in tuberculosis. We've been tracking TB ever since I've been there, and they did it well before that. There were people who were just dedicated to TB. In our laboratory, what we were doing was, if we had a patient, and an adequate sample, we could, the same day—if not, the next day—know that we had potential TB, and within 48 hours of receiving the sample, we could do a DNA probe, and determine whether we were dealing with tuberculosis or another form of microbacteria.

We had a good system set up with infection control. I'm not sure if you know, but TB control was a couple of buildings away from our laboratory, and we kept them posted on any positive cases, and the development of any antibiotic susceptibility profiles on positive cases. We had a good situation set up there. . . .

Now, with TB, there is a potential problem. We took any patient in the hospital—whether they could pay or not, whether they had a Goodwill card, or had a Medicare/Medicaid card, or nothing. And therefore, any potential TB patient could be screened, and treated. The new system, with the Alliance Health Plan that the Mayor has, does have that weakness—they don't take *anybody,* because you have to fall within a certain parameter of income, be a District resident, and have registered with Alliance. Otherwise, you could be turned away, or things get so difficult, that in a *practical* sense, you are turned away. And these people are hard to find once you treat them anyway—no known address, no telephone numbers; or maybe, get them once, and never get them there again. Not only homeless, but people who have homes move around to different locations, different friends. It's a big problem.

So, from a practical standpoint, you have to be open-minded, and good-hearted, and realize that if you've got a potential TB patient now, take care of him to the hilt. Don't do anything to have him walk out the door. And, that's happened many times. When they thought that they were going to be probed, or pushed, or something like that, they'd just disappear.

I'll come back to what I said before: Take the worst-case scenario, and imagine what could happen if you didn't resolve it now, and get it started on a solution pathway. If you don't do it, you could have a disaster.

We may be running into a disaster right now, because the patients aren't freely coming into a hospital, or being brought in—by a friend, a neighbor, the police, or whatever. I would predict, that within a few years, all of a sudden there's going to be a blip: a high number of exposures to people who are positive for TB, that we haven't treated, discovered—God only knows. And someone will say, "It costs an awful lot to take care of these people." Yeah, but it costs a lot more when you've got exposures, and you have to treat a thousand more people, or even ten more people.

We had some patients six to seven months in the hospital, from potential patients, to discovery, to full DOT [directly observed therapy] treatment, to the point they were [in a non-infectious condition] to be discharged. That can take up to eight or nine months. You have to keep them incarcerated to be sure that they have been treated properly. You could not discharge a patient until they were considered to be organism-free.

It's a subtle thing most people don't understand. And it doesn't happen very often. I think, in the hospital, at any one time, in 2000, or 1999, we had about three patients in the hospital in that category. That's expensive. But it meant, that when they were out, they were free, and they would not infect anyone. God only knows how many patients are falling into that category right now, have not even been *seen*. I don't like to be an alarmist, but I think you have to be practical, too.

The fear in my mind, that hasn't been said enough, is pediatric patients. With more adults that are positive, coughing and spewing acid-fast bacillae, you have the potential for children getting ill, and when they're ill early, if they live, it's not going to be a good life for them. We haven't seen many cases, but we have seen them. D.C. General has seen quite a few.

Q: Can we expect further problems from the shutdown of D.C. General?

Seymour: When, in any area—but they didn't think it was necessary to think it through—you remove a joint-commission certified, licensed, state-of-the-art-equipped laboratory, I think you're going to have problems. And we had so much state-of-the-art equipment there—I mean, Dr. Kisch, the director, thought, if you could save money, if you would save time, he wanted the equipment. And we got it. And of course, the other justification, if you have a training hospital, you should have some of the latest equipment, so the physicians become familiar with using it.

But the cost-cutting strategy means that you have to get administrators to decide where to save money. You are paying *more* to hire a battery of administrators than it does to run the laboratory!

You've got to demand more of the managers who run the laboratory, too, I think—run things more efficiently. Don't run to save money. Run to make the best turn-around time, the best treatment potential. Sometimes it's going to cost you a lot. Sometimes it won't.

That means you're an idealist. Nobody likes an idealist.

. . .The Mayor had that big plan for the District—the new health plan, and it's got a lot of good points to it. The cost was not very clear, and I think they're finding that the cost is huge. But it's a good idea except for one thing: They've got too many managers, and they don't have D.C. General Hospital!

D.C. General Hospital was always saving money. When they had problems, they would get up and go, and get the thing done. Because they had to work with a small budget. And now, you don't have any operation in the District that is willing or capable of handling everything with a small budget. I mean, for all the things that were done wrong, and the poor managers we had at the hospital from time to time—money being mis-spent—*still, having the hospital there saved the District so much money*. And right now, I hope they're starting to realize how much it's costing to get—*not* what they got from D.C. General, but about a third, if not a quarter, of what they used to get from D.C. General. The outlay is huge.

I think the Mayor and [D.C. Health Director Ivan] Walks have good people on the staff. But when you're cast into a situation where all of a sudden you have to deliver services, and you've closed the hospital that delivers the services, you kill yourself.

Legislation Introduced On Terrorism Insurance

On Nov. 1, legislation was introduced into both Houses to implement a plan proposed by the Bush Administration to facilitate the provision of terrorism risk insurance. Under the plan, as described by Treasury Secretary Paul O'Neill to the Senate Commerce, Science, and Transportation Committee on Oct. 30, the Federal government would absorb 80% of the first $20 billion in losses resulting from a future terrorist act, and 90% of losses up to $100 billion. The amount that the government would absorb would decrease over time until, at the end of the third year, the industry would assume 100% liability, under the "expectation that the private sector would further develop its capacity [to set risk premiums] each year," explained O'Neill.

The bill, introduced by House Financial Services Committee Chairman Michael Oxley (R-Ohio) and Senate Banking Committee Chairman Paul Sarbanes (D-Md.), provides for a 90/10 split up to $100 billion, and seeks to recoup the government for losses by placing surcharges on policyholders. The bill is set to run for two years, and is extendable for another year by the Secretary of the Treasury. For the long term, Oxley said, "insurers will be encouraged to set aside reserves in case they are needed to pay terrorism claims. These reserves will grow while our short-term solution is in place."

The problem that the bill is said to address is the inability of insurance companies to price terrorism insurance, in the wake of the Sept. 11 terror attacks on New York and Washington, D.C. O'Neill said, at the Oct. 30 hearing, that "because insurance companies do not know the upper bound of terrorism risk exposure, they will protect themselves by charging enormous premiums, dramatically curtailing coverage, or, as we have already seen, . . . simply refuse to offer coverage." He said this "has the potential to cause severe economic dislocations in the near term."

The bill has bipartisan support, but Sen. Ernest Hollings (D-S.C.) expressed skepticism that the bill is anything other than a bailout of the insurance industry. O'Neill insisted that it is not, but Sarbanes acknowledged that "this proposal to deal with this issue is going to have to be very carefully worked through."

Aviation Security Bill Faces Tough Conference

On Nov. 1, the House passed an aviation security bill that is significantly different from the bill that passed the Senate by a vote of 100-0 on Oct. 11. The House bill creates a Transportation Security Administration within the Department of Transportation, which will assume responsibility for security of all modes of transportation. It also requires enhanced security at airports, including a military presence; the deployment of air marshals on flights; specified aviation security measures, including allowing pilots to carry firearms in the cockpit; and the submission of passenger manifests of flights originating overseas.

The most contentious provision, is that dealing with passenger and baggage screening. The House bill establishes employment and training standards but leaves it to the Bush Administration to decide whether the screeners will be Federal employees. The Senate bill Federalizes the entire workforce and places it under the Department of Justice.

The split in the House on the passenger screening issue was almost entirely ideological. The Republicans bristled at the idea of creating another Federal workforce, one with civil service protections and the right to unionize. As House Majority Whip Tom DeLay (R-Tex.) said on NBC's "Meet the Press" on Nov. 4, "I don't want a government program." The Democrats charged that the GOP is trying to keep the present system in place, which amounts to "security by the lowest bidder." Of course, the debate is framed in such a way as to leave out the most crucial factor, and that is, that the current system is the result of the cost-cutting regime imposed on the airlines by the deregulation of 1979.

During the House debate, the Senate bill was introduced as a substitute amendment by James Oberstar (D-Minn.), the ranking member on the Transportation and Infrastructure Committee. Oberstar's amendment was defeated by a vote of 218-214. The bill now goes to conference committee, and, with security breaches at the nation's airports continuing to make news, no one can predict how a compromise might be reached.

Senate Democrats Put Forth Stimulus Plan

On Nov. 6, Senate Majority Leader Tom Daschle (D-S.D.) announced that the Senate Finance Committee will be moving ahead with a markup of a proposed economic stimulus bill. Among other things, the bill will provide for an additional 13 weeks of unemployment benefits, on top of the usual 26 weeks; a 75% subsidy to the unemployed to purchase health insurance; and a tax rebate for 45 million low-income taxpayers who were ineligible for or only received a partial tax rebate in the first round of tax cuts earlier this year. The bill also includes a section dealing with homeland security issues, including infrastructure protection.

Republicans pounced on the plan, accusing Daschle of being totally partisan. Charles Grassley (R-Iowa), the ranking member on the Finance Committee, warned, "There's no point in having a train wreck on the floor of the United States Senate, and that's where we're headed" with the Democratic bill. Minority Leader Trent Lott (R-Miss.) complained, "There is concern" that the Democrats "continue to turn to just spending more money" which doesn't have a "stimulative effect." The Republicans support the bill passed by the House on Oct. 24. That bill consists mostly of tax cuts, and a minimal amount of spending for the unemployed.

Daschle said, "I think it's amusing that the Republicans would call our approach 'partisan' when it was the Democrats who attempted to reach out week after week to our Republican colleagues in the hope of finding a bipartisan consensus." He said it was the Republicans who refused that consensus—and he might have noted that the House debate and vote were very partisan. "We're ready to sit down any time," Daschle said. "Until then, we've got to do all that we can to move this process forward, and that's what we're doing."

FBI Criticized In Senate Hearing

FBI and Justice Department officials faced skeptical Senators when they testified before the Senate Judiciary Committee's Subcommittee on Technology, Terrorism, and Government Information, on Nov. 6. Subcommittee Chairman Dianne Feinstein (D-Calif.) expressed surprise that the FBI had made little progress in its investigation of the anthrax attacks. "This has been a big puzzle to me," she said. "I would have thought that it would be fairly easy to determine the number of sources, go directly to them . . . and come up with some conclusions."

J.T. Caruso, deputy assistant director of the FBI, said that, in fact, there are thousands of people who have been educated in the United States who "possess the capabilities, the intellectual knowledge to be able to produce various kinds of pathogens," and that it is enormously difficult to track them all down. Caruso told the subcommittee that the FBI has agents "out all over the country talking to people in laboratories . . . and following up leads." However, as John Edwards (D-N.C.) noted, the bottom line is, "As of now, you don't know where the anthrax came from, and you have not been able to identify all the people who may have access to it." Caruso replied, "That's correct."

The FBI's problems in cooperating with local authorities also made it into the record. Boca Raton, Florida Mayor Steven Abrams, whose city was the location of the first anthrax attack, told the subcommittee that he now subscribes to the *National Enquirer,* because he gets more reliable information from that publication on the anthrax attacks than he does from the FBI.

Bush Threatens Veto On Appropriations

President George Bush, during a meeting with Congressional leaders on Nov. 6, warned that if Congress insists on adding funds over and above the $40 billion in emergency spending appropriated after the Sept. 11 attacks, he will start vetoing spending bills. Members of both parties initially reacted with anger. Senate Appropriations Committee Chairman Robert Byrd (D-W.V.) reportedly told the President, "Parents are afraid to take their children to school, they're afraid to go shopping. If you want to veto, you go right ahead."

Appropriators in both the House and the Senate have been trying to provide additional money for the Centers for Disease Control and Prevention, for law enforcement agencies, and for protection of weapons facilities and shipping.

The next day, House Minority Leader Richard Gephardt (D-Mo.) told reporters that there is a bipartisan group in Congress that feels "it's important that there be at least provisional allowance for needed spending that might appear over the next four months for mainly homeland defense and bioterrorism." The White House, on the other hand, is arguing that they have only spent $3.7 billion of the $40 billion allocation so far, and therefore there are plenty of funds remaining to meet any foreseeable needs. House Appropriations Committee Chairman Bill Young (R-Fla.) was initially inclined to agree with the Democrats but then changed his mind, calling on committee Republicans to vote against additional emergency spending.

The White House meeting came on the heels of the Senate completing action on the Labor, Health and Human Services, and Education Departments appropriations bill. It took a week to work through it because of a number of disputes, the worst one being an amendment sponsored by Majority Leader Tom Daschle (D-S.D.) guaranteeing the right of public safety officers to unionize. Daschle gave up on it when a cloture vote on the amendment came up four votes short of the required 60 to get past a Republican filibuster.

Editorial

No More Bailouts; It's Bankrupt

U.S. Federal Reserve short-term interest rates are now lower than during the Great Depression; Alan "Rumplestiltskin" Greenspan has stamped his foot ten times since Lyndon LaRouche warned, in January, that Greenspan's foot-stamping would not work. Japanese interest rates are at absolute zero, and there have been some 115 interest-rate cuts by central banks worldwide this year. The broad money supply measures in *all* the Group of Seven countries are rising at annual rates of anywhere from 7% up to 21% (the United States).

But despite these desperate efforts, the phenomenon seen in Japan in recent years has spread across the world—banks and financial institutions *will not lend* into any real economic investment. The lead investigation of our *Economics* section this week shows in stark outline the latest phase of the global crisis of the financial system: During the second and third quarters of 2001, banks "became unable to" lend new credit to corporations in Asia, Europe, and the United States. The existing credit already outstanding began to shrink, as more and more loans went bad or net repayment was compelled. And this was true for direct private investment as well—a global "credit freeze" is under way and intensifying, against non-financial firms operating in the real economy.

All the new money being pumped in at this phase of the crisis, by the Federal Reserve-led central banks of the world, is like so much forced hot water being pumped into a washing machine whose hoses are broken—it can no longer wash any clothes, but there's plenty of liquidity evaporating on certain floors. The volumes going into stock markets are of no use to corporations already swamped under unpayable debts—they have to savagely cut their real expenditures in order to meet shareholders' demands, so any increased buying of their stock now constitutes *the direct opposite of real investment* to those firms.

What is crystal clear in this process is that the only way to save the physical-economic assets of nations or of productive firms, worldwide, from destruction, is the application of the principle of "Chapter 11" bankruptcy as enshrined in U.S. law at the outset of the Great Depression. The opposed policy—financial bailouts—cannot work even in the short term any longer: This is as true for the U.S. airline industry, as it has been shown true for the nation of Argentina. Public money pumped into a bailout, as a substitute for private capital fleeing out of all productive economic activity, simply goes to bail out the same creditors pulling their money out, leaving the productive capacity to die anyway. This is why Argentina's blood-letting attempt to avoid default, led quickly and directly to—default. The same will be true in the case of the U.S. and European airlines, for example.

Yet "bailout or bankruptcy" is the choice always put before desperate governments, or industry employees; and most will stampede into line to support the bailout. They will give up wages or entire budgets to get a bailout, whose purpose is merely to pay creditors and shareholders to liquidate their investments. "We have to stay out of bankruptcy," they cry, rushing straight into asset-stripping and, not far down the road, liquidation as a productive enterprise.

The global "credit freeze" stage of the economic collapse is a clear warning: time to stop thinking in "shareholder values," and think instead of saving productive capacities and getting real new investment into them.

This takes Lyndon LaRouche's "Chapter 11" strategy, of bankruptcy *protection* of productive assets and workforces which could otherwise be permanently lost in the global debt collapse. "The general rule," as LaRouche put it in a 1999 writing, "is that useful production and distribution of needed physical goods, must be uninterrupted, and that essential institutions remain standing and functional, even if they might be judged insolubly bankrupt. Keep things which must function, functioning. . . ."

Applied to the entire collapsing system, that is the only principle which can revive credit and production.