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LaRouche's Policies Welcomed in Russia, Italy  
Britain Moves Toward Emergency Crisis Rule  
The IMF Made Brazil's Electricity Crisis

## Sharon War Plan Exposed; Hamas Is His Tool





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*World Wide Web site: <http://www.larouchepub.com>  
e-mail: [eirns@larouchepub.com](mailto:eirns@larouchepub.com)*

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

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

**In Mexico:** EIR, Serapio Rendón No. 70 Int. 28, Col. San  
Rafael, Del. Cuauhtémoc, México, DF 06470. Tels: 55-66-  
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## From the Associate Editor

**T**he events surrounding Lyndon LaRouche's trip to Moscow, reported in our *Feature*, bring to fruition a dialogue with Russian intellectuals that began with LaRouche's first visit to Moscow, in 1994, and has been enriched with each passing year. Presidents have come and gone, in Moscow and in Washington, but LaRouche's influence has continued to grow, nurturing a grouping of economists and political leaders who have the vision required to steer their nation out of its economic and social crisis, and into a 21st Century leadership role of statecraft for the benefit of all mankind.

Economist Dr. Tatyana Koryagina summed up what many in LaRouche's Moscow audiences were thinking, when she said, "Imagine, the United States had the chance to elect a person of such profound knowledge and integrity, as its President. And instead he was put into jail. This shows how stupid people have become." Indeed, LaRouche should be addressing the U.S. Congress, as well as the Russian Duma. The fact that he isn't, shows the damage done to this country by both the free-market Republicans and the Gore Democrats.

In this issue, we continue our serialization of the Moscow events, with the speeches at a hearing before a committee of the Duma. We'll have more to come: LaRouche's lecture to the Lebedev Institute of the Academy of Sciences. Special thanks to Rachel Douglas, LaRouche's translator, who prepared the speeches for speedy publication with painstaking care.

A new theme stands out in LaRouche's Moscow discussions: the vital importance of state regulation of infrastructure and natural resources, for *any* nation. This is the most neglected element of economy in the past 30 years, he says. This idea is precisely what Russians need to understand, as they come to terms with their own history: the collapse of the Soviet "command economy," and the horrors of the free-market looting which followed it. It is also what Americans need to know, as they see their energy and health-care infrastructure demolished by the Bush Administration.

The pace of events is escalating, as the global crisis deepens. After leaving Russia, LaRouche was welcomed in Italy (see *Economics*), and he will be delivering an international webcast on July 24, as an intervention of his 2004 Presidential campaign. The topic is "How To Survive the Onrushing Global Financial Crash."

*Susan Welsh*

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Inset: Israeli Prime  
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Israeli Prime Minister Sharon plans to use the Hamas countergang to trigger a war that would demolish the Palestinian Authority and destabilize Jordan, ultimately overthrowing King Abdullah II and establishing Jordan as a “Palestinian homeland” under Hamas control. He counts on the Bush Administration, seeking a U.S. military buildup, to go along with his manipulations. An *EIR* exclusive, by Jeffrey Steinberg.

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## LaRouche Tours Italy's North After Russian Duma Session

by Claudio Celani

On July 3-5, Lyndon LaRouche visited Italy, and was the guest speaker at three events promoted by the Italy-Russia Chamber of Commerce, the Chamber of Commerce of Vicenza, and the Milan-based Association for the Development of Banking and the Stock Market Studies. These events were the result of the growing movement in Italy, among industrial-

ists as well as politicians, in support of LaRouche's proposals to meet the global economic crash with a New Bretton Woods world financial system, and the infrastructural development of the Eurasian Land-Bridge.

The proposals originating with LaRouche have been at the center of numerous public initiatives by members of Par-



*Media coverage of LaRouche's address to Vicenza-region industrialists and exporters, was extensive. Here, he speaks at the Vicenza Chamber of Commerce.*

liament. But the July events represented a step forward in bringing these ideas to a larger audience of progressive entrepreneurs.

Of particular significance, was the invitation extended to LaRouche by the Chamber of Commerce of the city of Vicenza, a middle-sized city in northeastern Italy which, in the early 1990s, underwent a boom and became Italy's third-largest export region. Vicenza's and, later on, also Treviso's, industrial booms embody what has become known as Italy's fabulous "Northeast" phenomenon. With 800,000 inhabitants, the region of Vicenza exports an average of \$15,000 per capita—a total export volume of more than \$10 billion.

The Vicenza Chamber of Commerce has 86,000 members, which means that more than 10% of the population are entrepreneurs! Mostly, these are small and medium-sized technology-oriented firms owned by their managers. This extremely dynamic structure, however, given its export orientation, is sensitive to the international conjuncture, in particular to the collapse of U.S. import capacity.

A fairly large number of Vicenza entrepreneurs have been following LaRouche's forecasts and the proposals, which have been vindicated by both the stock market col-

lapses and the U.S. crisis. They offered him the opportunity to address a larger audience in order to discuss the alternative of the New Bretton Woods and the Eurasian Land-Bridge, and to send a signal to Italy's national political leaders in that direction. In introducing LaRouche, Chamber of Commerce President Danilo Longhi stressed that Vicenza's industrialists are interested in LaRouche's ideas, because they are "distant from the world of financial bubbles, and represent the real economy."

LaRouche was engaged in a podium discussion by Prof. Ferruccio Brisolini, a teacher of economic history at the University of Venice, who declared himself in total agreement with LaRouche's analysis on the collapse of the financial and monetary system, and made some critical remarks on aspects of the new monetary and financial system that must necessarily replace the existing one. LaRouche focused his well-received intervention on three aspects: making clear that the current crisis is a systemic one, and not a cyclical crisis; describing how the Eurasian Land-Bridge must consist of "development corridors" aimed at developing full-set national and regional economies; and, defining the specific role of Italy's Northeastern entrepreneurs in the recovery.

## 'Vicenza Bets on Eurasia'

*Here are selections of media coverage of LaRouche in Italy:*

*Il Gazzettino del Veneto, of July 4, wrote:*

The Veneto region and Vicenza province in particular, open themselves to Eurasia. They look mainly at Russia, India, Malaysia, and China, so as to strengthen an already solid international orientation. . . . The consolation is inevitable, after the words of U.S. economist Lyndon LaRouche, several times Presidential candidate and internationally famous for his peculiar ideas of economic policies. Yesterday, he was in Vicenza (a city where he enjoys personal friendships) to discuss about the medium- and long-term perspectives of [Italy's] Northeast. "We are facing the most serious financial crisis of contemporary history," LaRouche said, "but there are measures we can take to survive the catastrophe." Among these, exporting scientific and economic progress in Eurasia, where there are natural resources, but there is a dearth of infrastructure. Here, small and medium-sized enterprises, rather than large multinational corporations, too connected to the financial system, can contribute to progress and integrated

development; whereby not only the economy, but society as a whole will grow.

*Il Giornale di Vicenza, July 4:*

The analysis by U.S. scholar Lyndon LaRouche, known for his upstream theses, as well as for his cyclical candidacy to the U.S. Presidency, has promoted across the board the Northeastern entrepreneurship, with its roots in the territory, and unwilling to be seduced by the stock exchange and the financial markets. "Firms in this area have a better chance of withstanding the inevitable economic crisis, the most serious in modern history," LaRouche said, contradicting the opinions of those who anticipate the failure of the Northeastern model, because of its modest participation in international dynamics [globalization] and of the relatively small capitalization of its firms. . . . The facility with holding dialogue abroad, according to the American economist, puts the Northeast in a privileged position to participate in the realization of large Eurasian infrastructures, the ambitious project supported by LaRouche to prevent the international crash. New, magnetically levitated "Silk Roads" to transport freight from one end of the Eurasian continent to the other, and to allow the development of areas which are isolated, although rich in natural resources, a perspective which LaRouche associates with the creation of a new, stable monetary system, with fixed and controlled rates.

## The Challenge of Mediterranean Development

During the conference, and also in private discussions afterwards, it was made clear that, contrary to a distorted media image, Northeast businessmen are deeply caring for developing Italy's backward Mezzogiorno regions in the south. They see the development of the Mezzogiorno as part of a mission embracing the development of the whole southern Mediterranean shore. Such a mission, although not in contrast with the East-West Eurasian development routes, poses different challenges from those encountered in transalpine East-West cooperation, which takes place in the context of a fundamentally common European culture. By contrast, in the Mediterranean, different cultures meet each other, requiring a dialogue capacity which Italian entrepreneurs have already developed.

To expand the inter-Mediterranean development, therefore, Southern Italy must be adequately equipped with economic infrastructures and industrial capacities. A key factor, LaRouche stressed, will be the construction of the Messina Bridge, linking Sicily to the Italian peninsula and the European mainland. This will not only be a very productive infrastructure development, LaRouche said, but will change "the image the Italians have of themselves," imbued with demoralization provoked by the so-far dominant International Monetary Fund (IMF) policies and abdication of national sovereignty.

Both the regional newspaper *Il Gazzettino Veneto*, and the local *Il Giornale di Vicenza* covered the conference prominently, while several local television stations and the third national network, Raitre, broadcast interviews with LaRouche. Before the event, *Il Giornale di Vicenza* ran a lengthy and prominent interview.

## Briefing on Russia

In Milan, LaRouche was guest of the president of the Italy-Russia Chamber of Commerce, Rosario Alessandrello. Last year, Alessandrello—who is also the president of Tecnimont, one of the most important engineering companies in Italy—issued a lengthy statement on the importance of LaRouche's candidacy for the Presidency of the United States, and his role in the promotion of a New Bretton Woods. The meeting took place in the prestigious Palazzo dei Giureconsulti in the center of Milan, and was attended by businessmen and media representatives.

Among the main topic of discussion were, of course, issues related to Russia, where LaRouche had just paid a visit. Whereas everybody agreed that with Vladimir Putin's Presidency, a shift for the better had taken place, in terms of consolidating a domestic market and a drive to control export revenues, questions included, what has so far prevented Russia from becoming an importer of capital? LaRouche explained that the problem is not of an economic, but a political nature, and gave the examples of how, in the 1970s and 1980s, Mexico's and Japan's economies were targeted by U.S.-supported

IMF policies and destroyed. LaRouche stressed that Italy is best suited, given the ease of holding dialogue with Eastern Europe demonstrated by its small and medium-sized firms, to develop Russia's best resources—its idled scientists and engineers—and engage them in projects to develop new products and technologies.

The next day, LaRouche spoke at the Catholic University, at a seminar sponsored by the Association for the Development of Banking and Stock Market Studies. The seminar, "Towards a New Bretton Woods: A Project To Solve the International Financial Crisis," was attended by members of the Association, mostly bank directors, and by students and members of the University Solidarity Movement (MSU). For nearly two hours, LaRouche elaborated not only on the nature of the systemic crisis, but also on the relationship between religion, morality and economics.

In particular, he answered questions raised by students, pushing them to reject impotent critiques of "corrupt politicians" and to take on responsibility for the whole world. At the same time, he exhorted teachers to provide real knowledge, based on reviving crucial scientific experiments and Classical culture, and not mere "learning"—as the only way to lead students out of adolescence, into real adulthood.

The transcript of his speech appears immediately below.

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# LaRouche Explains Systemic Crisis to Milan Bankers at Catholic University

*During a visit widely reported in the Veneto region of Italy's industrial Northeast, Lyndon LaRouche also spoke on July 5 in Milan, to the Association for the Development of Banking and Stock Market Studies. The meeting took place at the Catholic University, also drawing students and others. The report and translation of the welcoming remarks, come from Andrew Spannaus, EIR correspondent in Milan. Subheads have been added.*

**Dr. Federico Kerbaker**, of the Association:

On behalf of Dr. Giuseppe Vigorelli, the president of the Association, who unfortunately has an urgent and very important engagement today, and thus will not be able to join us, I welcome Prof. Lyndon H. LaRouche, who by now is famous not only around the world, but also in Italy, for the breadth and depth of the subjects which he addresses, of which today I believe he will give us an enlightening example. This is not the first time that Professor LaRouche has been in Italy; he has also been presented in various important national newspapers, his theses are well known, and have been circulated in our country. Today, we will have a further example of this. We will listen to him and then we will be able to ask questions, which I think will come naturally from the subjects addressed, which are not predominantly economic, but of a wider scope, and which touch on the moral nature of human beings and peoples, and thus are particularly interesting. Before giving the floor to him, Prof. Alberto Banfi, of the Catholic University, wishes to thank the participants, and then Mrs. Gorini will give us an introduction to the theories of the Professor [-LaRouche].

**Prof. Alberto Banfi**, Catholic University of the Sacred Heart:

Thank you. I will speak very briefly, as the host of this event. I must first of all thank Professor LaRouche for his availability and for his presentation. These seminars, for those who are familiar with them, are part of the collaboration among the Catholic University, in particular the faculty of banking, financial, and insurance sciences, and the Association for the Development of Banking and Stock Market Studies, which thus attempts to create relations with the outside world. I would say that this is a fairly important opportunity, and that we should fully exploit this occasion. I thank the speaker, those of you who are present, and in a certain sense also the university itself, which has made the facilities available, and which is honored to receive these people. Mrs. Gor-

ini will now make a short presentation, and I once again thank especially Mr. LaRouche.

**Liliana Gorini**, Italy's International Civil Rights Solidarity Movement:

I thank Professor Banfi, the Association which has given us this opportunity, and in particular Dr. Giuseppe Vigorelli, who cannot be here, because as Dr. Kerbaker told us, he was called to go to the Banca d'Italia. Dr. Vigorelli, however, asked me to emphasize the importance of this initiative and the project of Mr. LaRouche, not only for the banking world, but also for this university, which is a Catholic university. . . .

Mr. LaRouche cites an extremely important principle, which he emphasized yesterday at the Italian-Russian Chamber of Commerce here in Milan; that of the Common Good, the General Welfare laid out in the Preamble of the United States Constitution, and it is an extremely important idea also in the interventions of the Holy Father [Pope John Paul II]. . . .

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## Lyndon LaRouche

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Thank you very much. I have addressed this subject in various forms before a number of fora, as well as in written form, recently in Moscow, where, significantly, I was invited to address a commission on economics and business of the Russian Parliament, the Duma, by an acquaintance of mine, a friend, Dr. Sergei Glazyev, who is the head of that department of the Duma. I can say that the reason, in part, I was there, is that the Academy of Sciences of Russia, is predominantly in agreement with the fact that there is a global crisis and that certain reforms have to occur. There are other currents in Russia, of more of the liberal economics type, who disagree, and this, of course, is obvious to those who follow the Russian press and various discussions between East and West.

And also, it just happened that the schedule of my appearances in Italy, at three occasions here, came in the same framework. So, I come somewhat fresh from Moscow — speaking there last Friday [June 29] in particular, and in a press conference on Thursday; and I shall address the same general subject, but from a somewhat different standpoint, emphasizing what I think are concerns that ought to be prominent in the minds of both the faculty and the students of a university of this kind. There are certain problems which are not different in their essentials from what I have discussed elsewhere, but,



*The hall of the Catholic University in Milan, during the discussion period following Lyndon LaRouche's address to the Association for the Development of Banking and Stock Market Studies.*

under these auspices presently, it is more appropriate to get into the meat of certain questions—certain moral and related questions.

Generally, among competent leaders, of governments, professional economists, around most of the world, it is generally agreed—personally among them, if not in press reports, if not in official statements by governments—that the present international financial system is doomed to an early collapse. This opinion has been building up since 1996, and it is more so today since the recent developments and the collapse of the fabled “New Economy,” which is about to become something of the past economy, while the old economy continues to stumble on.

### **A Cyclical or Systemic Crisis?**

The disagreement among these economists and governments—the competent ones, in general—is not whether there is a financial crisis and a monetary crisis and an economic crisis: Most agree. The difference arises as to whether this is a cyclical crisis, such as the Depression of the 1930s, or whether this is a systemic crisis. Now, what I shall do today, is to indicate to you, in terms which I think you will appreciate, why this is a systemic crisis, not a cyclical crisis; that is, there's no possibility that reforms within the framework of the present system, the present IMF system—there's no reform which could save this system. If we attempt to cling to this system, we can plunge into a Dark Age which would remind European historians of what happened in the Fourteenth Cen-

tury in Italy and elsewhere when the houses of Bardi and Peruzzi of the Lombard banking system went bankrupt. We're in a similar situation today.

Therefore, if we try to treat this as a cyclical crisis, we shall be crushed by the threat of a new Dark Age. Whereas, if we treat this as a systemic crisis, and recognize the errors of policy which must be removed from the system, as cancer from a person, then we can survive.

It is also a moral crisis, because the systemic errors of assumption in the present system, are errors which are moral errors as well as technical errors. And those errors must be corrected; the cancer must be removed—or the patient will not survive. However, if the cancer is removed, the patient can survive.

In a cyclical crisis, you try to make a few changes which bridge the depth of the crisis and resume business as usual, as before the crisis. In a systemic crisis, you must pull out axioms of the system—remove them, introduce new axiomatic assumptions.

Now, the nature of this present global crisis goes back to the death of President Franklin Roosevelt in April 1945. Roosevelt had saved the United States, and led in saving the world, from the horrors of the last Great Depression; from a world which unfortunately was taken over by things like Hitler, and other problems.

Roosevelt's intention was to return the United States to the principles upon which it had been founded, with great emphasis on what is called the General Welfare principle of

the Preamble of the U.S. Federal Constitution. Also, if you look back further, there is nothing unique in that Preamble relative to the 1776 Declaration of Independence. The first three paragraphs of the U.S. 1776 Declaration of Independence affirm the same principles as argued exactly previously by Gottfried Leibniz, who is the author of the famous expression “the pursuit of happiness,” as a principle, a moral principle. And this is the foundation of the U.S. system.

## The American System of Political Economy

However, the United States was divided into two great currents. One current, which is called the American intellectual tradition—it derived from Europe. It is derived, in the general sense, from the Fifteenth-Century Renaissance of Italy, and derived directly, or indirectly, from Cardinal Nicholas of Cusa, who is one of the architects of the Council of Florence, who set forth the principle upon which the modern nation-state is founded, the *Concordantia Catholica*; who founded modern experimental physical science with his work *De Docta Ignorantia*—and these principles as mediated through followers of Cusa such as Luca Pacioli, Leonardo da Vinci, also Johannes Kepler, Leibniz, and others—were the principles on which the United States was founded.

The reason the United States was founded as it was, is because of the crises of the Sixteenth, Seventeenth, and Eighteenth Centuries. It had become impossible to build a system of sovereign nation-states in Europe. The political conditions did not allow it. And therefore, some of the greatest European intellects looked toward the United States in particular—what became the United States—to found there a republic, whose existence would become a model for bringing the idea of republican society back into Europe, in the form of European nation-states.

In particular, after the success of Lincoln, and his followers and associates, over the period of 1861 to 1876, in making the United States not only the victor in a war against a British puppet called the Confederacy, but making it the leading agro-industrial economy in the world, the most advanced in technology of application—not necessarily in all features of science, but in technology of application. With the Centennial Exposition in Philadelphia in 1876, where the fruits of this accomplishment of 1861-1876 were presented, many Europeans immediately adopted what was known as the American System of Political Economy, as the context for reforms in Europe. For example, Bismarck, in 1877, made reforms in Germany which are based on the experience of the 1861-1876 reforms in the United States.

In Russia, Mendeleyev, who attended the conference in 1876 in Philadelphia, went back to Russia, to his Tsar, Alexander II—who was pro-American—and persuaded the Tsar to launch the great program, based on the American model, which resulted in the Trans-Siberian Railroad and the industrial development of Russia, resuming what had been attempted earlier by Peter the Great, in terms of institutions.

Japan, in the late 1870s, was reformed from a feudal society into a modern industrial state, based on the direct influence of Henry C. Carey, the leading economist of the United States, and a close collaborator of President Lincoln beforehand.

There were movements in China. Sun Yat-sen, the American-backed sponsor of the creation of modern China, was a follower of these American principles. His writings contain that, emblematically. And so forth and so on.

So, we had a great movement in Europe, which included the influence of Cavour and others in Italy, in the development of modern Italy as a united nation. The science of Italy, the hydrodynamic school, of people such as Betti and so forth, came out of the same circles which made the Italian state, the Italian Republic. The art: Verdi, is an exponent of the same ideas, the same sense of statecraft—his great artistic works are works of statecraft, which are to be understood not only as art, but art as statecraft.

So, these were the great accomplishments. And the American intellectual tradition in the United States shared this view, which is also a European view.

But, in the United States we had another current. The other current is called—among American historians—the American Tory tradition. The American Tory tradition is traced officially back to about 1763, at a time when the inevitable break between the American colonies and the British monarchy was clear. At that point, certain forces inside North America adopted the position of Benjamin Franklin, for an independent republic, following the principles of Leibniz. Other forces, based in Boston, Massachusetts, based in New York, had a contrary view, as did those who were slave-owners in the Southern states—Southern colonies at that time.

These were sympathetic to London. Some of them stayed with the United States when it was formed, but they remained sympathetic in their philosophy, to London. They were pro-slavery, or sympathetic to the rights of slaveholders. They believed not in the American System of Political Economy, as typified by the writings of Alexander Hamilton as Treasury Secretary, but they believed in Adam Smith.

And so, these elements, which have been often a treasonous role in the United States, were the people who supported the creation of the Confederacy—were typified by the Democratic Party of the Nineteenth Century, which was the party of American treason, the American Tory party; pro-slavery, pro-free trade, and that sort of thing; totally opposed to the American System.

Then, at the beginning of the century, with the assassination of President McKinley, we had, again: Theodore Roosevelt, who was a protégé, an heir of the Confederacy in his tradition, his thinking. Woodrow Wilson, who was not only an heir of the Confederacy, but who promoted the revival of the Ku Klux Klan while he was President of the United States, from the White House. Coolidge, President Coolidge, also a disastrous man, and an evil one.

So, Roosevelt came back into power in 1933, having been

## Milan Asks LaRouche About the G-8 Summit

*The Milan Chamber of Commerce, in an interview distributed to the participants at the July 4 meeting of the city's Italy-Russia Chamber of Commerce, reported the following:*

For LaRouche, the [Group of Eight] Summit will be a failure, both internally and externally. Internally, because the United States is not yet ready to formulate or accept intelligent proposals, and the Europeans are not ready to openly challenge Washington. LaRouche says: "Maybe something will change when the next phase of the world financial collapse will offer the opportunity — I believe not very far from now.

"Externally, the protest movement is what, in English, we call a countergang operation, led by figures like Teddy Goldsmith, which essentially tends to produce chaos. It expresses no beneficial alternative to globalization. Nevertheless, we must oppose globalization because, without a protecting role of the state, in its role as credit generator to promote industry, agriculture, science, etc., a globalized free-trade system would be a disaster. The alternative to globalization is a system of partnership among sovereign nation-states, committed to a mission of medium- to -long term economic development, along the lines of what de Gaulle called 'indicative planning.' There is already something moving in this direction, but the fruits are not yet ripe."

elected in 1932, determined, on the basis of the failure of Teddy Roosevelt, Woodrow Wilson, and Coolidge, to restore the United States, under conditions of Depression, to the American System. He based himself on a struggle to restore the principle of the General Welfare, which is otherwise known in European history as the principle of the Common Good, as the basis for government — which means essentially that the difference is between oligarchical society and republican society.

### The Great Issue

Oligarchical society, which is a term that the Greeks developed, in discussing what Sparta meant, or what the Babylonian model represented, meant that a few people, or a small group of people, called an oligarchy or a caste, a ruling caste, reigned over the mass of humanity, who were either hunted down as animals, enslaved, or otherwise turned into virtual

human cattle—as in the case of ancient Rome, where the *populari*, where it became the actual human cattle who marched into the Colosseum and places like that, and cheered for the lions eating the Christians, for the edification of Nero.

The treatment of people, with the manipulation of mass popular opinion, as the opinion of cattle, to control the subjugation of the mass of the people, for the pleasure and convenience of a ruling oligarchy and its lackeys—that's the great issue.

The United States was supposed to be an institution to free mankind from that, for the principle of the Common Good. The principle that no government has the moral right to rule, except as it is officially committed to protect and promote the General Welfare of the living and their posterity—all of them. The responsibility to develop the entire land area, for the use of its people, and their posterity, the responsibility to develop and nurture the living population, and their posterity, for the benefit of the future. That every government is obliged to serve that principle morally, and not to violate it. And a government which does not serve that principle is not a form of government which is fit to survive.

We see this demonstrated in the nature of the systemic crisis in the United States and worldwide today. Because for historical reasons, the world has been dominated for the past period, since 1945, since the death of Roosevelt, by dominant Anglo-American powers, as virtually imperial powers.

Roosevelt's intention had been, had he lived, to eliminate all relics of Portuguese, Dutch, British, and French imperialism. He was explicit on this during the period of World War II. He told Churchill clearly that was his intention. At the end of the war, Roosevelt told Churchill: Your empires are going to disappear. We are going to build a world of a community of principle of sovereign nation-state republics. We are going to eliminate your Adam Smith system, your free-trade system. We are going to not use British Eighteenth Century methods any longer. We are going to assist, in the postwar period, the nations which have been enslaved, or subjugated otherwise; we are going to free them to become republics. And we, with our economic power, are going to develop that power to assist these nations in doing for themselves that which serves the interests of their people and their posterity.

When Roosevelt died, that changed. As you see, immediately, the British, with the complicity of Roosevelt's successors, including Truman, used the force of arms to restore colonization—in what is called Indonesia today, in Southeast Asia generally, turned Japanese troops in to recolonize Indochina; did the same thing in Africa. The French, the British, the Portuguese, and the Dutch used the force of arms, supported by the government of the United States, to suppress the aspirations of colonial peoples. And, even though in the 1960s a number of these colonial powers began to get conditional freedom—that is, they would have the right to call themselves nation-states, independence, and to have some of

their local figures, as the governments of these nations—the control of these nations remained largely in Paris, New York, and London; through financial control, international monetary and financial institutions were the actual rulers of these nations, which were never truly freed.

But, nonetheless, in looking at systems, we observe in the relations between the United States and Western Europe, over the period of 1945 through 1964 or beyond, as in Italy, we saw a progress in economy through certain modes of cooperation associated with the old Bretton Woods agreements, those prevailing during that period. Especially the forms of the 1945-1958 period. We saw in France, and saw in Europe generally, the influence of Monnet, in shaping the relationship between the United States and Western Europe in the postwar period. We saw the Schuman plan in France. We saw the fruit of this in the role of de Gaulle in founding the Fifth Republic, with his policy of indicative planning. We saw this in Italy, with De Gasperi, and others who collaborated with him. We saw this in the work of Mattei, who expressed the same kind of aspirations and progress.

So, up until about the middle of the 1960s, despite the evils and wrongs which persisted under the Bretton Woods system, between Europe and United States, there was a general, net progress in economy. A legacy of the reforms which had been introduced in the United States under Roosevelt, which continued in that form under the special conditions of that period.

### **Nixon's 'Southern Strategy'**

Then, in the middle of the 1960s, it began to change. The signal of change was the first [Harold] Wilson government in England, which was a disaster for Europe as well as for England, the United Kingdom. The same thing emerged in the United States around the candidacy of Richard Nixon. In 1966-1968, Nixon ran for President under a strategy which was called the "Southern Strategy." Nixon met with Ku Klux Klan leaders in the Southern states, met with figures such as Trent Lott, who until just recently, was the Majority Leader of the Senate, and met with these people, to do two things: to eliminate the American System of Political Economy; to go to a radically free-trade system—a British system—the system which Roosevelt had opposed, and the system from which Roosevelt had saved the United States in overcoming the Depression in the early 1930s.

So, you had this racist, radical, liberal form—radical, liberal economic form—which took over the United States, and with a series of measures, tore up the General Welfare clause of the Preamble of the Constitution, tore up the idea of the Common Good, and went for an economy based on what is called today "shareholder interest." The interests of shareholders in stocks and major corporations and similar kinds of institutions is primary. The welfare of the people is secondary.

You see this in the question of health-care reform. The

United States in the postwar period passed the Hill-Burton Act. The Hill-Burton Act meant that the Federal government mandated a priority on the provisions of adequate health-care institutional facilities in every county of the United States; and prescribed Federal assistance to ensure that combinations of local physicians, private hospitals, public hospitals, and other institutions would collaborate, jointly, in the sense of an annual budgetary planning, to ensure that there were certain improvements achieved in the health-care provisions in that county per capita, per square kilometer. And that succeeded, up until about 1975. In 1972-1973, under Nixon, the Hill-Burton Act, under which these improvements had been made, was repealed, with a new act, called the HMO Act. Since that time, the health care system we had in the United States has been destroyed, and is now being destroyed at an accelerating rate.

You have the same thing that's occurring in Germany, where a similar postwar health-care system was installed. Particularly because of the great number of war injured and other sufferers at the close of the war, Germany had a real health-care problem, in terms of veterans of the war and other things. But they created an excellent system of health care, which worked, and has worked, and which is now being torn apart. You see the same thing in every part of Europe, the same thing in every part of the world. The health-care systems which we had developed to promote the Common Good, the Common Welfare of the population, are being destroyed.

We see the same thing in the pharmaceutical field, where we no longer say that we fight disease as we would fight a war—we fight it throughout the planet, we mobilize resources; if some country has a disease, we help them. We don't say, what is profitable and what is not profitable? We say, our mission is to combat disease for the sake of the General Welfare, not only of our nation, but to collaborate with other nations to defend the General Welfare of humanity in general.

We have the outbreak of disease now. People say, "We can't treat the diseases in Africa," say, AIDS, and so forth. "We must protect the financial interests of the stockholders of the pharmaceutical companies." These are moral questions.

This is systemic!

So, the difference is, we went from an imperfect form of a world system, led by the United States, which was committed to promote the General Welfare, to a system which was corrupted but still worked into the middle of the 1960s, and into a system, beginning with the Wilson government in England and the Nixon Administration in the United States, with a destruction of the commitment to the General Welfare. That's what's the problem is, and that's the systemic change.

### **Free Traders Are Not Christians**

Now, there are other aspects to this, of an economic nature. People who talk in terms of free trade are two things:

They are not Christians, and they are idiots.

Why are they not Christians? The idea of free trade is not new to Europe. It's not new to ancient Europe. It's not new to feudal Europe. One of the characteristic impressions of the origin of the idea of free trade, the philosophical idea of free trade, the idea of freedom of Friedrich von Hayek and so forth, goes back to the followers of Paolo Sarpi, the founder of British empiricism—or then it was called English empiricism—through his two dupes, Francis Bacon and Thomas Hobbes. The introduction of modern empiricism.

Under this theory, an old thing was revived; the doctrine of the Bogomils, who spread out of Bulgaria, through the Bulgarian empire, who spread into Northern Italy, and spread into France. They had the doctrine of the invisible hand, as we call it. The doctrine that, underneath the floorboards of the universe, there are little green men, or something similar; a power, a spiritual power, like the Eleusinian mysteries of the Gnostics, of the Babylonians; a secret, mysterious power, which arranges statistics, so that some people are rewarded and other people are not rewarded. This was the theory of the Bogomils; the theory of the elect. The theory of the elected ones. And this is the source of the doctrine of free trade, created, for example, by Bernard Mandeville, a Dutchman, who went to England, who was the spiritual founder of the Mont Pelerin Society.

You have also, the case of the Physiocratic doctrine of Quesnay. Quesnay says, explicitly, that the elect, those who are appointed—and, he said, by God—to become the feudal rulers of the states, are the ones to whom all of the profit of the land belongs, and all of the profit of society belongs, because they are the elect. Therefore, the peasants, the serfs on the land, are nothing but cattle, and make no more contribution to the human income of society, than cattle do, toward the state.

So, we have the doctrine of *laissez-faire*, of free trade; which in France is an echo of the Bogomil tradition, of the Cathar tradition in France. That free trade, because some deity, some maleficent deity, prefers some people over others, the others we treat as human cattle, as contemptible. And he condemns them to live as human cattle, but gives a bonus to those specially elected people who are chosen to be benefitted by the invisible hand underneath the floorboards.

You see what kind of a religious belief that is? Is that Christian? No, of course not. That's what Adam Smith represented. Read Adam Smith! Read the writings of Bentham. Read the writings of the school, the British East India Company school, which is called British economy. All liberal economics comes from this particular application of the empiricist doctrine of Paolo Sarpi, as expressed in these forms: typified by Mandeville, typified by Locke, typified by Thomas Hobbes, typified by Adam Smith, and so forth.

Whereas, the other view is, what? The other view is that man is naturally good. That man has a likeness to the Creator.

He is in the image of the Creator. This likeness, which no animal has, is the power to create discoveries of true universal principles, through the powers of cognition. And that by applying these powers of cognition, we are able to solve problems which animals could not solve; we are able to increase the dominion of the human species in and over the planet. We are able to improve the planet as a whole, for animals and plants as well as human beings. We are able to produce what we would recognize as physical economic growth, per capita and per square kilometer of land-area.

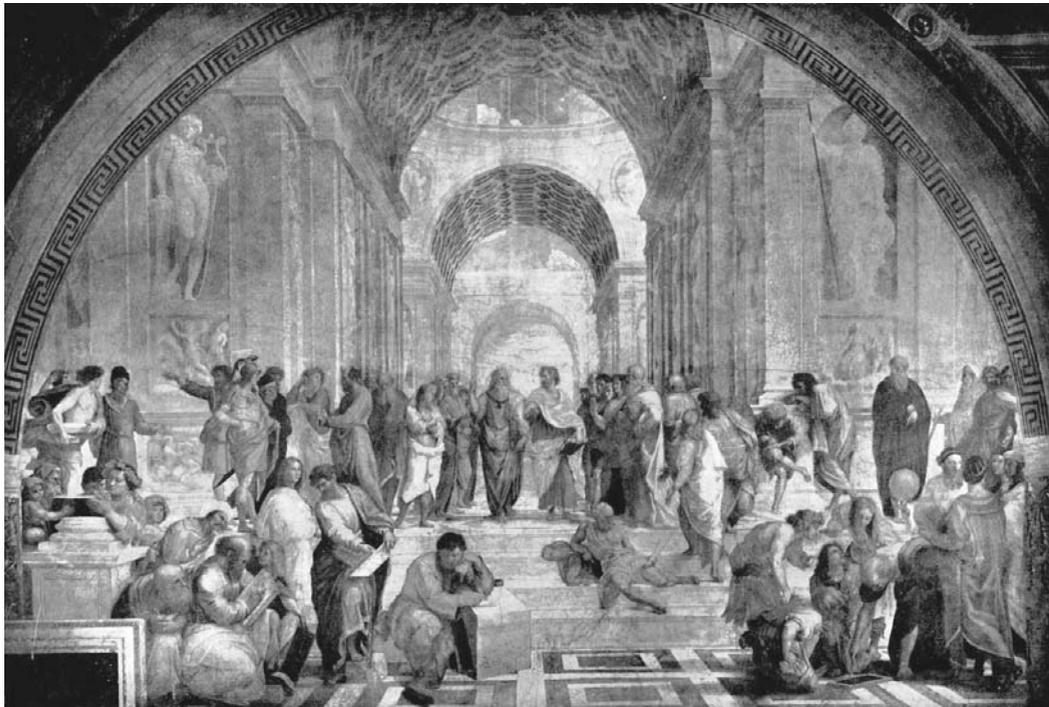
We do this through creativity; through the development of the child, the development of the infant as a child, the development of a child as an adolescent, and bringing the adolescent safely through that period of insanity which is called adolescence, hopefully, into post-adolescent maturity, adult maturity.

We do this by making improvements, in land, by building infrastructure, by improving land areas, by large-scale works in water management, in production of power, in the improvement of places of habitation, in cities, in educational institutions, discoveries of physical principle, and discoveries of similar principles of how man can deal with man. Even though the individual creates—or should create—and has the power of goodness to create, if properly developed, if the individual is redeemed in that individual's natural-born potential; it's not the individual as such who makes the discovery in and of himself, and applies it to nature. It is the transmission of these discoveries of principle among people, a transmission where we owe discoveries to people who have been dead for centuries, thousands of years before us.

### A Lesson from the 'School of Athens'

If, in a competent university, in a competent secondary school, the child relives the actual original act of discovery of a universal principle, as that act occurred in the mind of someone long dead. And, as in the famous *School of Athens* that Raphael shows in the Vatican library, you look at the faces as portrayed by Raphael in this picture; you say, now put a date on the time of life of each of the figures in that picture: They're not all contemporaries. You have two dominant figures—you have Plato versus Aristotle. They are approximately contemporaries, but not really. Plato is actually an earlier period, overlapping the life of Aristotle.

Then you have other figures, scattered in groups, discussing, in this painting, this mural. What do you see? You're seeing a reflection of two things: You're seeing a reflection of the principle of education. You're also seeing a reflection of another principle, called the simultaneity of eternity. That, when we are able, through discoveries, to reach back thousands of years, and relive a moment of the actual original discovery in the mind of a person long dead, we study that person. We have a competent education. We know the place in which he or she lived. We know the experience. We may



*LaRouche used the metaphorical effect of Raphael's famous masterpiece from the Vatican Museum, "The School of Athens," to illustrate his fundamental idea about how the individual — each person in his audience — can come to locate his own life, in history as a whole.*

have a picture of that person, or a portrait, a representation, a statue. So that as students, these people become living people in our minds, in our memory. They live in our memory as if they were speaking now, because we have relived a thought which actually occurred in their mind, hundreds or thousands of years ago.

And therefore, what Raphael portrays, is what is typical of a good education. The important minds, the important discoverers of past history, are living in our mind, in the simultaneity of eternity. And if we are good students, and good practitioners, they become part of our conscience. We may not agree with them, all of them, but we don't do anything which is shameful before them. Therefore, we act that way.

We also realize that this is human; to think about history, the development of mankind in this way, is human; true humanity, in the Classical humanist sense. We turn from education to look at our fellow creatures in that way, to look at our fellow creatures as persons with whom we share such conceptions. We look at the future generations looking back at us. We see ourselves in that simultaneity of eternity, with the future. And that's part of our conscience. That is what is a sense of mission, helped by education, which gives society the ability to organize itself in ways which promote the General Good. Whereas the individual, as an individual discoverer, individual per se, could not do that.

Therefore, these things which we should celebrate in education, and practice in education, are an essential part of the moral principles of society, and they have the same universal authority as universal physical principles.

The creation of the modern nation-state is such a principle. Think of the struggle in Europe to build the modern nation-state. Start with the Christian mission. Start before Christianity, with the Classical Greek mission, as typified by Plato's dialogues on this kind of question. The notion of government; the notion of the Socratic conception of truthfulness and *agapē*, as opposed to the ideas portrayed by the figures Glaucon and Thrasymachus. Christianity proclaiming the universality of mankind, as a child of God, an idea in struggle, which we can trace in the history of European civilization. This conception of man. This conception of man's relationship to man; of man's relationship to God. This is what built us.

### **Republican vs. Oligarchical Principle**

Then you have, over a thousand years, a struggle constantly in Europe, to supersede feudalism, to supersede a system based on human cattle, of serfdom, a system of human cattle, with a true modern society. A recurring struggle in this direction. And then the great significance — after this terrible catastrophe of the Fourteenth Century, the Dark Age — of the emergence, via Padua and so forth, through this school, of the great Renaissance.

You see the discovery of America, done how? The discovery of America was organized by Cardinal Nicholas of Cusa. How? He influenced the conditions in Europe at the time, said we must reach out across the ocean to people's across the seas. And he, with his associates, developed the maps and plans, which were then directly adopted by Columbus, and adopted also by Isabella I of Spain, which sent Columbus out

to discover the Americas. From that time on, the same thing, the struggle for a republic, of a society based on the Common Good, went forth with ships into the Americas and elsewhere, with the idea that, perhaps in these new lands, we could develop a republic which we could then bring back, as an idea in Europe, and establish the idea of a true republic, consistent with those principles in Europe itself.

So, that's a system. A systemic difference. A systemic difference in the conception of man. The oligarchical conception, which says these are nothing but human cattle. Society exists for the elite, for the shareholders of society, the aristocracy and their lackeys. We'll be good to the people, but we must consider the rights of the shareholders first, and the people second. If the people have to suffer for the sake of the shareholders, that's too bad. Unfortunate, but that's the way things are. That's one system.

The other system says, "No." We as human beings have the ability, to transform the conditions of life of society, to transform human relations, to create states — sovereign states, which undertake this responsibility, for the promotion of the General Welfare, of all the people, of caring for everyone. We have the ability also to form unions, communities of principle among sovereign states, which become then the only government of mankind on this planet: communities of perfectly sovereign nation-states.

Now, Roosevelt was not a perfect man in this respect, but he understood these principles in general. All of the great leaders of the United States, especially people like Abraham Lincoln as President, or John Quincy Adams, understood this. The greatest thinkers in Europe have understood this. That's a system.

The other system, is the system under which man is subjected to the oligarchical conception, which is what we have today. And that is the change that occurred in the middle of the 1960s, the change from an imperfect form of a system that actually worked, to the evil form, the corruption of that system, and a system that could not work.

### **What Is Physical Economy?**

Now, look at this same thing from a physical economic standpoint. The way in which an economy works: It works in cycles. For example: What's an economy based on? A modern economy, 50% or more of the total activity of a modern economy, is concentrated on what is called basic economic infrastructure: water management, transportation, power generation, public sanitation, urban development, hospitals, education and so forth. These are all things which we do, not because they make an immediate profit — they have to be managed in a responsible way — but they do not make a profit! They're not supposed to make a direct profit. We don't subject them to accounting standards of profitability. We will sometimes create arrangements under which private investors, or private entrepreneurs will undertake this work, under regulation of government. We will create the conditions so the entre-

preneur can successfully do that financially — we'll give them terms, and protection to do that. But it is the responsibility of the state for all of the people and all of the land-area, which is reflected in what we call basic economic infrastructure. Social infrastructure, such as education, health care. Physical infrastructure: water management, land management, transportation, power, sanitation in general. These are functions which are unique to the government as a whole. Otherwise the General Welfare is not deliberately served.

### **The General Welfare and the Individual**

Now, all of these things involve cycles which generally run about 25 years. That is, for example, if you want to create a human being, it takes about 25 years to create a proficient adult human being in modern society. As I said, you start with an infant, who has all of the biological and other potentials of a creature made in the image of the Creator. You try to turn that infant into a child, a successful child; who has certain limitations. It's only a child. You try to turn that child into an adolescent, and that's a terrible thing to do to any child, to turn it into an adolescent. But you try to help them get through that. Universities are supposed to participate in this process. Successfully, so they don't commit suicide; they don't do other terrible things to themselves.

We try to produce, through education and other things in society, we try to produce a matured adult. Now, what is a matured adult? A matured adult is a person whose mind has the kind of qualities which are epitomized by Raphael's portrait of the *School of Athens*. A matured adult is person who, from personal experience, from educational experience, has assimilated the mind of history in personalized form into the child's own mind.

Now, he goes forth in society, educated, with a depth of developed conscience of knowledge acquired in this personalized way. A mind which is an enriched form of what Raphael portrays with the *School of Athens*. It takes 25 years to produce a person who is that matured and solid and confident in their ability to do that.

So, therefore, you have an investment you must make in the infant, an investment in the parental household to ensure the standards of living in the parental household are adequate, to ensure the development of the child, to get the adolescent through adolescence safely, without having to be subjected to Nintendo games, which might turn him into a killer, and into adulthood, as a qualified member of adult society, not only in proficiency to do a job, but morally — to function as a citizen of a republic. Whatever it costs, we must expend that cost, by society, to produce that result, among all our children. That takes about 25 years of investment.

To make a power system, before you can liquidate the investment in a power system's construction and operation, will take about a 25-year cycle. Twelve years at least, before you're ahead. Any water-management project is a long-term project. So, everything that is important about infrastructure,

is about a quarter-century long, as a cycle of investment; during which you must make the initial investment to provide the facility, you must anticipate the point at which you will have to renovate it, replace it or renovate it, maybe 25 or 50 years ahead, and in the meantime you have to maintain its operation and functioning.

So, you have these long cycles—the first thing in economy. Then, you get into the private entrepreneurial sector. Now, if a farmer wants to produce a crop, a farmer does not produce a crop this year. A farmer must develop the land, must have a crop program, a cattle-raising program. For example, if you want to develop a prime cattle herd, starting from young cows, it may take you 25 years, as a farmer, to develop a good, stable herd of cattle. To develop sheep, you have to develop a stock. Other livestock. You want to develop a fishery, such

as an artificial fishery, which is very important these days, you have to develop the conditions. These do not pay out in one year. An annual accounting system won't account for it. You have a cycle, a crop cycle, three-year crop cycles, seven-year crop cycles, which must be invested, otherwise you don't have the economy.

### Investment in Technology Cycles

So, to understand an economy, you have to look in terms of cycles, long-term cycles, generally 25 years or longer, of investment. You have cycles of investment in productive capital, in industries. You don't pay these out by the year, you don't slice these out like sausages. You have to make the total investment—it takes time to develop the investment. You have to reach a point where the investment begins to pay off.

## Veneto's Truly High-Tech Firms

In Italy, Lyndon LaRouche visited the SAID industrial plants in Altavilla Vicentina, a suburb of the city of Vicenza. SAID is a typical middle-sized firm of this area, owned by its manager Giannino Bonato. It is a world leader in cutting diamonds for industrial uses such as cutting granite and ceramics, and in producing diamond tools for machine tools. With 130 workers, SAID uses very advanced technologies, and has a laboratory for materials analysis, which uses a plasma atomic photometer, a revolutionary machine which is able to read molecular composition through an atomic beam (a sort of atomic molecular scanner).

For the last 15 years, SAID has run an experimental center for research on new technologies applied to agriculture. This center, under the leadership of Dr. Giancarlo Costa, has developed a new greenhouse process for growing soil-less plants, known as aeroponics. Plant roots, inserted into appropriate supports, are regularly sprayed with a nutrient solution, which is recycled through a closed-circuit hydraulic system, in order to minimize water and chemical dispersion. Aeroponic farming allows productivity increases per square meter which are three times higher than traditional farming; the closed-cycle nutrient solution permits 90% of the water to be saved, with zero pollution.

Originally, aeroponic techniques were studied by the U.S. National Aeronautics and Space Agency to solve problems of feeding personnel employed in space exploration and colonization. Today, SAID sells and builds aeroponics plants in the Canary Islands, in southern Spain, in Italy's Mezzogiorno in the south, and in Arab countries. Dr. Costa explained to LaRouche that about ten years of

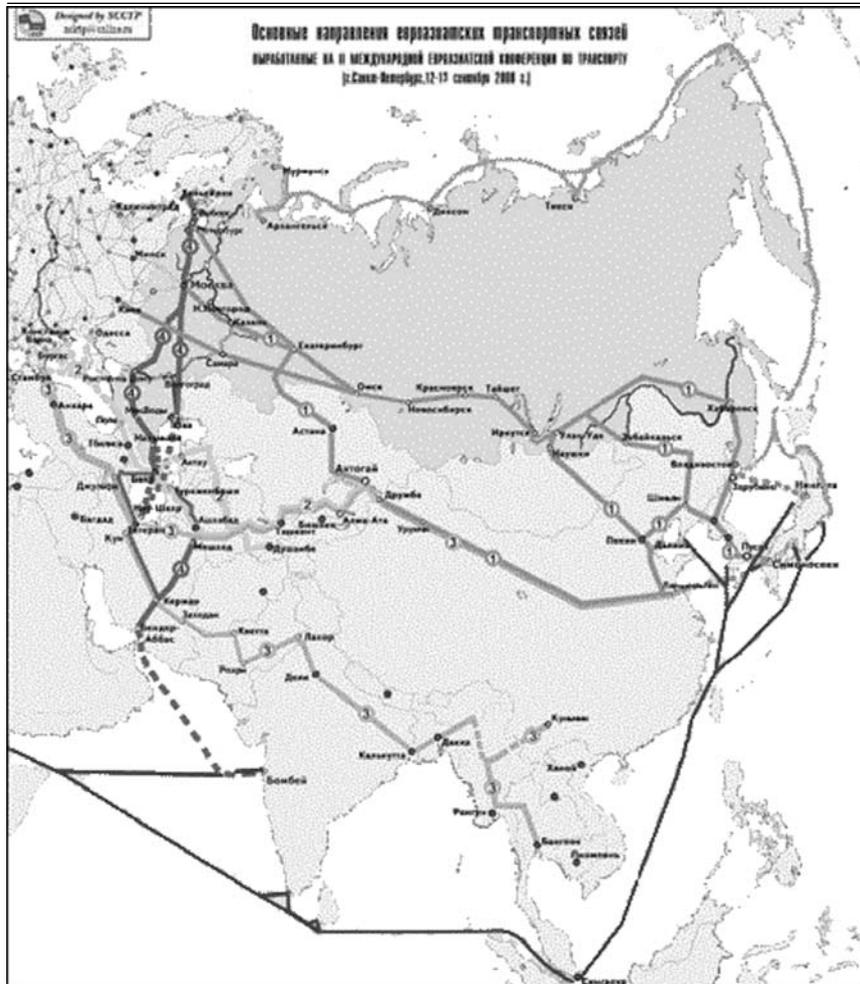
studies and research were needed to solve problems which hindered a profitable application of aeroponics on an industrial scale, such as acceptable costs for the management of the nutrient solution and of the electronics applied to plant management.

Today, aeroponics is competitive, not only with respect to traditional agriculture, but also against hydroponic agriculture. LaRouche, who has studied results and advanced theories in the field of biophysical optics, in the context of a proposed world mobilization against AIDS, discussed with Dr. Costa some possible applications of this science in greenhouse agriculture. Dr. Costa has been active for years in ground-breaking scientific research to defeat cancer, in opposition to the narrow and anti-scientific approach of molecular chemistry, which recognizes no difference between inorganic matter and living cell tissues.

LaRouche attributed a strategic significance to his visit to SAID, and explained it to a Italian Channel 3 TV team, which accompanied the visit and introduced LaRouche as "the possible next U.S. President." Firms like SAID, LaRouche explained, are the concrete example of what really creates wealth and profit in the economy: the application of new scientific and technological discoveries to labor productivity, through the development of machine tools, industrial machines, and new design processes.

Liberating the full productive potential of this sector of small and middle-sized enterprises, where industrial plants are often accompanied by advanced research laboratories, could stop the collapse of the world economy. Once the pseudo-economy of speculative profits has disintegrated, economic growth could start to be measured not on free-market mysticism but on scientifically based physical categories such as, LaRouche proposes, the density of innovations per entrepreneur.—*Claudio Celani*

## Russian Ministry of Transportation's 'Main Directions'



Russia's more aggressive policy as "the Eurasian nation," as LaRouche names it, has included its plans for the further development of the Eurasian Land-Bridge. Russia has spearheaded the Eurasian Transport Union; and to the three main east-west Eurasian Land-Bridge routes conceived during the 1990s, has added a fourth, north-south route, from Europe to India via Russia and Iran.

You have a cycle in which that investment will be successful or not successful. So, therefore, when you plan an economy, you have to think about cycles. Don't say, "Well the economy is going to go up because such-and-such happened yesterday." Not true. You have cycles. You have to think ahead 25 years, 10 years, 3 years, 7 years. Different periods.

Now, also, another thing about economy: No accountant, as an accountant, can understand an economy, because nothing an accountant deals with has anything to do with an economy. What an accountant deals with is money, and, of course, keeping money in balance is important for an economy, but money is not what makes an economy work. It's people that make an economy work. It's intentions.

For example, there is no such thing as a sustainable econ-

omy, sustainable development; it doesn't exist. Anything that is fixed is inherently entropic. Anything which you try to maintain the same, the same ecological relationships, your society will decay, because of entropy, an innate entropy in the process. Human society succeeds as life itself does. Life succeeds because life is intrinsically anti-entropic. That's the characteristic difference between life and what we call abiotic processes. Human beings, unlike biological processes generally, have the ability to change themselves as systems. No lower species can willfully change itself into a higher species. Human beings, in effect, in economic effect, are able to change themselves into higher species; through scientific, technological, and cultural progress. Society is based on that progress. That progress is reflected as growth, and improvement of the conditions of life.

For example, how many years can you afford to send a child to school? In very poor countries, you can't send them to school for long. Their development is aborted. Therefore, if you can increase the demographic conditions of households with respect to things like education and health care, you've grown. You increase the productive power of mankind over nature, which you can measure per capita, physically. You can measure in terms of land-area. Improvement, increase in the anti-entropy, man's power of nature increasing.

Now, what we do, therefore, is we measure these things properly in terms

of cycles. We say: We make an investment, a new technology, an improvement, a change in practice, increasing the school year, intensifying the program of education. All of these things are investments, which don't pay off in the same year usually, they pay off in four years. Or 15 years, or 25 years. And it's by a pattern of growth, of planned growth in society. Promoting policies that work. In the former time, we did that.

There's a famous case in Germany, of the Lautenbach proposal in 1931, which was released in 1992; a secret proposal.

When you face a crisis, you do not cut your costs, your operating costs, the way the accountants tell you. You tell the accountants to sit down and be quiet, and listen. You say,

“We’re going to increase our expenditure for public employment. We’re going to increase our facilities for education. We’re going to increase our expenditures for research and development. We’re not going to cut them. We’re not going to try to balance the budget. What we’re going to do, is the state will create long-term credit, as a state responsibility, not to print money. It may print money, but as a long-term responsibility. Create credit which anticipates the cycle of development which will get us out of the mess.”

## The Dialogue of Cultures

Now, today where are we? We’ve come to the point at which Eurasia is the center of potential for man’s escape from a new Dark Age. The Pope has addressed this in various ways, in the dialogue of cultures, in the ecumenical approach.

What do you have in Eurasia, which is the center of the world land-mass, the center of world population? We have one the one side, we have European culture. Globally extended European culture, as in the Americas. We have on the other side, the other extremity, South Asia, Southeast Asia, and East Asia. These are different cultures, with different conceptions of man, generally than we have in European culture. There are axiomatic differences.

We have the observation of the President of Iran, recently in Berlin, President Khatami, about a dialogue of cultures. This should be studied very carefully, this lecture of his. It is one of the most important statements to come out from any statesman in the recent period. Read it. Study it. Think about it.

The challenge, therefore, is: How do we, with the world economy disintegrating, how do we put Eurasia back together in such a way, that the poor people of East Asia, Southeast Asia, and South Asia, are able to participate, as a market, in a sense, for the higher technology which we’re able to develop in European culture, to make that available to them on a long-term to medium-term basis, as investment. That is, how can we export, on a credit system—and it has to be long term, 1% to 2% simple interest-rate loans; how do we export the masses of technology which people in China, India, Southeast Asia and elsewhere—as also in Africa—require in order to get out of this mess? Where do we generate the credit?

The central banking systems of Europe and the United States are totally bankrupt. All of them. I know them. They’re bankrupt, hopelessly bankrupt. You look at the telecom sector, investment sector, and you see it very clearly. They could never pay these debts.

How do we generate the credit, then, to provide in China, which is a great market, Southeast Asia, a great market, India, also a great market, and Africa too, for the long term—how do we generate the credit to get our people out of unemployment, out of poverty, employed in producing things that these parts of the world need? In a cooperative venture over 25 years, 10 years, whatever—depending on the type of investment we’re talking about?

## Eurasian Role of Russia

We have in the middle, between these two things, East Asia, Southeast Asia, and South Asia, Europe on the other side, you have a middle country, a middle nation, called Russia. Russia, which emerged in its present form, is a product of the same time at which the Renaissance occurred in Italy—when the Mongol occupation retreated, or the Dark Age in Europe had ended. In this period, Russia emerged, to become a characteristically Eurasian nation. So, anything else you think about Russia, the key thing is Russia is a Eurasian nation. It has the characteristics of European culture, but it also has an interface, a deep interface, with Eurasia, in general. Especially with Russians, you have lots of Russians who are Asian, you have Russians who are all over Asia.

Therefore, for now our option should be: Okay, the system is collapsing. The collapse was inevitable, and systemic. Don’t try to pretend it didn’t exist. Don’t try to pretend it’s cyclical, it’s systemic. We have to change. To what?

First of all, since we are in European culture, with European traditions, we have to propose first of all, an approach which is based on the experience of European culture. Now, the most recent example of the success in doing that occurred under Roosevelt, in the recovery of the United States from the Depression, and the subsequent reconstruction of Europe under the old Bretton Woods system, of the period of 1945 to the middle of the 1960s, until the disaster of the Wilson Administration in the United Kingdom.

Therefore, we know that system worked. So, therefore, what do we do? We say, let’s eliminate the system which didn’t work, which is the 1971–2001 system, which has been a disaster and which is about to collapse, and return to a precedent which in our experience did work: the old Bretton Woods system. What we do is, we take the principles of protectionism, and regulation, fixed exchange-rates, which were used for the old Bretton Woods system, as for the Monnet plan, as for Italy under De Gasperi, in France under de Gaulle, as in France and Germany under the Schuman plan; we take these experiences, we say, we go back to that because it worked. Politically, that’s feasible because you’re proposing something that worked—that experience tells us did work. Therefore, it’s easy to get that acceptance.

We must, however, extend the provisions of that, to adapt them to Eurasia as a whole in particular, and trade with Eurasia. We must integrate Africa into that same procedure. We don’t have the means to take on Africa directly, but if we have a successful development program in Eurasia, Eurasian development will, with Eurasian cooperation, finally spill into bringing justice into Africa.

So that’s the basis of the point. But the first thing to recognize, is that are deep scientific and philosophical reasons underlying both the reason we’re in a crisis, as a systemic crisis, and also underlying what determines successful and failed proposed solutions to that crisis.

Thank you.

# Agenda for National Energy Emergency Action

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## I. Blackouts, Price Chaos Hit Southwest

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### States—National Re-Regulation Needed

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On July 2, for the first time in its history, southern Nevada suffered rolling blackouts, affecting 10,000 users for about an hour. Blackouts also struck Arizona in early July. These incidents resulted directly from the chaotic electricity “market” and distribution conditions in the West, which guarantee the likelihood of outages. The Southwestern blackouts occurred notwithstanding the new, limited controls on wholesale electric prices that the Federal Energy Regulatory Commission (FERC) was forced, by political pressure, to make in June for ten Western states. FERC’s limited actions are part of the problem, not the solution. The vulnerability for electric failure, and price chaos, show dramatically the need for a return to *national energy regulation*, as proposed by Lyndon

LaRouche’s Presidential campaign.

On July 10, a leader of the drive for re-regulation of energy, Nevada State Sen. Joe Neal (D-Las Vegas) reiterated that “anything short of national re-regulation of energy won’t work.” He was speaking of what led up to the first-ever electric blackouts in his state this month, and, in particular, of the behavior of the marketer/generator energy companies.

On July 2, temperatures hit over 100° in a regional heat wave, and demand hit a new record. Nevada Power would have had enough electricity to meet demand, but for two plants operated by Southern California Edison, which held back power, because of confusion over how much they could charge for it. Under the new FERC rules enacted in June, the regional bench-

mark price can change when California declares a Stage 1 emergency, which it did on July 2. So, confusion and blackouts ensued.

What happened, was that out-of-state generators, using “price confusion” as an excuse, pulled about 1,500 MW of electricity off the market, forcing the California Independent System Operator to declare a Stage 2 emergency. Officials said they called FERC’s hotline to find out what the new price should be, and they got no answer! Reached at home that night, the Commission officials said they would figure it out during the day—July 3.

As it turned out, California was not in a power emergency long enough to change the benchmark price, which was set at \$92 per MW-hour, plus a 10% credit charge for California. But industry observers predict that the suppliers will repeat this “confusion” scenario when there is an emergency declared again, potentially triggering a new price cap, and risking outages.

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## II. Refunds for California? Don’t Expect

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### To Make a Deal with the Houston Cartel

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On July 10, after two weeks, negotiations conducted by FERC broke down, between the energy cartel companies and the state of California, over how much companies would refund for their having overcharged the state for electricity in past months. On July 10, California Gov. Gray Davis (D) held a press conference to announce that he is holding out for multibil-

ions in refunds, and will sue if necessary. His beginning negotiating figure was in the range of \$8.9 billion; the FERC judge spoke of \$3.5 billion; and the companies talked merely a few hundred millions. There was no resolution.

The legal recourse Davis suggests, simply dramatizes the political reality that a citizens’ mobilization is required to force

the issue of returning the nation to a re-regulated energy supply overall, with reasonable prices—retail, wholesale, and for costs of production. There’s no way to think you can have a “deal” with the current deregulated energy company crowd—not over refunds, supplies, nor any other basic. Especially recalcitrant has been the “Houston Cartel”—Reliant, Enron, Dynegy, El Paso, and other Texas based big-name marketers, generators, and gas suppliers.

The second-quarter revenue figures of the energy companies reflect the hyper-profiteering that was the intention of energy deregulation in the first place. On July 12, Enron reported a 40% increase in Q2

earnings, over Q2 2000, on revenues of \$50 billion.

Enron, the largest contributor to the Bush I and II political campaigns, on July

11 filed a lawsuit against the California Senate Committee investigating energy market manipulation, charging that the state has no authority to demand docu-

ments. Enron's representative in Sacramento personally told this to the committee, which then voted 6-0 to hold Enron in contempt.

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### III. Energy Hyperinflation Slams Economy

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■ Rises in electric rates, natural gas bills, and other energy costs, are causing havoc cross-country. Mid-America Energy (Warren Buffett) just increased retail electric rates 10% in Iowa.

In California, home to almost 19,000 farms and 640,000 small businesses, natural gas prices rose more than tenfold over the last year, and electricity rates, just recently increased, will add at least 20% to each customer's bill. A *USA Today* survey reports that 26% of the small firms in California plan to raise their prices this year. Shockwaves are hitting agriculture in the state. For example, it cost \$150 a ton for natural gas to dry plums for prunes in 2000, but \$275 this year. Many farmers are destroying their crops, to cut losses.

Nationally, planting of spring wheat this year went way down. Idaho has the lowest acreage in ten years. Idaho Power Co. raised rates 31% for irrigators this year. This pattern is typical.

■ Cutoffs of residential electricity and natural gas are proceeding at unprecedented rates, after the pile-up of months of hyperinflated bills. Nationally, as of May, there were an estimated 4.3 million families (7-10 million persons) facing energy bill arrearages totalling almost \$910 million, in 19 states and the District of Columbia, according to the National Energy Assistance Directors Association.

In the Pittsburgh area, Columbia Gas of Pennsylvania reports shutting off service to 3,065 customers through May, up

15% over all of those terminated during 2000. In Rhode Island, there were twice as many cutoffs this year, as of May, than the same time last year—3,969 now, compared to 2,107 then—despite a 65% increase in heating aid this year. In Baltimore, the number of shutoffs this year is approximately 15,000.

■ Energy costs are busting school budgets. According to the *American School and University* trade journal, many school districts face up to 70% higher electricity and gas bills since January, than they had anticipated, e.g., Nashville, Tennessee, and Madison, Wisconsin. The *Oregon Statesman Journal* ran a survey of school crises, estimating that schools had budgeted for some \$7.8 billion for the 2000-01 school year, but many were out of money as of mid-year. Planners are now facing huge cuts in programs and staff.

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### IV. Energy 'Shopping' Is Flopping

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As the rip-off nature of energy deregulation is becoming more obvious, suspected even by non-thinking consumers, the many state "choice" programs are bombing out.

The deregulation pitch is: You are supposed to shop around for a new, cheaper, supplier. But consumers are rejecting

"choice." In Massachusetts, as of April, the new (pirate) energy firms have a mere 2,801 customers (0.11% of all customers)—the lowest number since deregulation went into effect there in April 1999. In Washington, D.C., after six months of deregulation, a mere 16 of the District's 200,000 residences had switched to new

suppliers; and only 1,733 of the District's 27,126 companies.

In Pennsylvania, supposedly a dereg "success," the new pirate suppliers serve about 591,596 customers in the state (11%), but that number includes 223,747 customers who were arbitrarily removed from PECO, and awarded to Enron's New Power Co. If this number of people who *involuntarily* "chose" New Power are subtracted, then only 7% of the customer base in the state has chosen to try a new supplier.

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### V. White House Tries To Keep Up

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#### Appearances on Energy Policy

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As of mid-July, the White House was scheduling a frenzy of political activities to create an aura of concern over energy. On Capitol Hill, there is an attempt for legislative initiatives this month, based on the May 17 Bush/Cheney "National Energy Program," whose guiding principle

is: hands off those scalper prices. Timed with this, is a public relations drive involving energy events for Cheney to address, along with cabinet-level spokesmen, and certain Congressmen.

In Pennsylvania—politically a swing state—Cheney is to speak to a town meet-

ing in the Pittsburgh area on July 16, set for early evening to grab TV time. Other "town hall meetings" are being scheduled around the country the same week. Media sources report that Bush himself will be kept out of the energy discussion.

The White House communications staff is saying the purpose of the blitz is to get their "story" out. But it's their "story"—the story of how the cartel companies want unlimited rights to set rates, to drill, to own transmission lines, to profiteer, etc.—that's causing the political uproar in the first place.

# Europe Faces Chaos In Euro Transition

by William Engdahl

At the recent EU Summit in Gothenburg, Sweden, the president of the European Parliament, Nicole Fontaine, warned that European governments in the 12 member countries of the European Monetary Union (EMU)—the so-called “Euro-land”—face a popular uprising which could be catastrophic for the EU, if they continue to ignore problems in preparing the introduction, within six months, of coins and bills denominated in the EMU currency, the euro. Fontaine accused her colleagues of ignoring “the mass of very tangible problems” ordinary citizens will face beginning next January, when national bills and coins will be phased out. The conversion from 12 national currencies into the supranational euro will be the largest currency changeover in world history.

Twelve countries will change from their existing national bills and coins for some 15 billion euro bills and 50 billion individual coins of various denomination. Already reports are emerging of the most simple logistical bottlenecks, in physically distributing to local banks and shops, by Jan. 1, 2002, such a huge volume of coins and bills. In Finland, for example, the government has admitted it cannot find sufficient numbers of armored trucks to deliver the coins and bills to the far remote areas of the country in the short time allowed.

The most aggressive logistical preparations so far come from France. President Jacques Chirac has signed an order to deploy thousands of police, paramilitary gendarmes, and the Army, as well as enlisting satellite monitoring to safeguard introduction of the new currency notes. It has identified 14,000 distribution routes it regards as “sensitive.” To protect these, six companies (18,000 men) of the elite CRS security forces, plus 12 squadrons of mobil gendarmerie, will be deployed. The shipments will be monitored by satellite.

## ‘Ordinary Businesses Not Ready’

In France alone, between Jan. 1 and Feb. 17, 2002, the Central Bank will distribute 7.6 billion coins and 1.5 billion in euro notes, of a total value FF 350 billion or \$50 billion. At the same time, the government must arrange collection, storage, and ultimate destruction of the 9.2 billion franc coins and 1.4 billion notes now in circulation. The logistics include having to transport the euro notes and coins to French overseas territories and colonies, from Francophone Africa to the Indian Ocean island of Reunion.

Moving this large physical volume of notes and coins

across 12 countries simultaneously, is reason enough to expect major foul-ups at the start of the year, with significant economic disruption. Yet, even were the physical logistics of this part of the euro introduction to go flawlessly, odds of avoiding chaos worse than the worst of the Y2K scare-scenarios, are tiny.

By law, as of Jan. 1, 2002, all Euroland companies must do business only in euros. They must also do book accounting for taxes in euros, including sales taxes. A recent report by the European Federation of Accountants (FEE) estimates, that between 25% and 33% of all euro-zone companies are still unaware of the most basic facts of the euro introduction.

The FEE warns companies of “an inability to continue doing business, because their software will not work.” EU Commission President Romano Prodi, the former Italian Prime Minister, convened a secret closed-door meeting in early June, with representatives of leading European banks, to discuss concerns over lack of adequate preparations. No details beyond the fact of the secret talks were released. The FEE says even companies that had switched their main accounting systems to euros, had no plans to change supporting data, such as stock records or customer accounts. That incompatibility, warns FEE director Noel Hepworth, could stop computer systems. “We are beginning to see quite a serious logjam. Businesses may well find there are difficulties in continuing to trade.”

To prepare the general public, the European Commission has spent \$85 million on TV ads, billboards, and leaflets to reach a population of 300 million. The ad campaign is a joke. One aspect is a travelling EU road show, complete with tent and bureaucrats from EU headquarters in Brussels, going across Germany from east to west to inform locals of the coming euro. Since early April, the tent show has visited just 25 towns.

In addition to changing accounting ledgers and computer programs from deutschemarks or francs to euros, moreover, all automated teller machines (ATMs) across the 12 countries must be changed. This alone will cost some \$75,000 per bank branch. The conversion will occur between Dec. 17, 2001 and Jan. 1, 2002 at noon. That comes in the midst of the busiest shopping season of the year, adding to certain shopper anger over long delays in getting cash.

In preliminary tests, the French Finance Ministry found it took four times longer to get correct change in the euros. French citizens must calculate 6.55957 francs = 1 euro, not exactly an easy sum to calculate in one’s head at the checkout counter. In Germany the figure is closer to 2:1, where DM 1 will equal 0.51 euro. There have been growing concerns in the European Commission, as well as in the European Central Bank, that the conversion period will lead to “rounding off” by businesses or shops, causing a covert form of price inflation against customers, which could be potentially explosive, if the broad population wakes up to the fact.

The introduction of euro coins also requires conversion

of millions of vending machines, parking meters, shopping carts, and other such everyday devices. Germany has the most extensive use of coins in such machines or carts: In Germany alone, there are some 2.4 million coin automats that have to be changed over, a job that will take two or three months and cost \$1.5 billion to complete.

### ‘Mattress Money’ at Risk?

The greatest room for chaos, however, comes from the untold hundreds of billions of marks or francs in so-called “mattress money”—cash hidden from public authorities by both ordinary citizens and criminals—as well as the untold amounts of deutschemark bills used as hard currency outside Germany, from Poland to Bulgaria to Serbia and Turkey and beyond—places where the German mark is considered the only “sound” money. The German Bundesbank estimates that some 40% of its total deutschemark currency in circulation is outside the country, approximately DM 75 billion. Others place the amount far higher.

Michel Legros, of the large investment bank Merrill Lynch in London, estimates that as much as \$90 billion of secret “black cash” bills are waiting to be spent or converted before Jan. 1. Informed European bankers estimate that a significant factor in the bizarre rise of the U.S. dollar against the euro in recent weeks, despite the plummeting U.S. stock market and falling economy, owes to Europeans rushing

secretly to convert their hidden franc bills or mark notes into dollars. Under the EU euro conversion rules, national central banks will accept old national notes and coins only until March 1, 2002. After that, no conversion is possible. In Germany, because of the vast size of the expatriate deutschemark market, the Bundesbank has decided to shorten that conversion period by four weeks, ending Feb. 1, 2002.

In France, Merrill Lynch estimates that \$21 billion of domestic black French money, is held in private mattresses. Many repairmen or handymen accept payment only in cash, in order to avoid taxes, and hide it for later use. In Germany, it is common to hear of workers hoarding such black money, in order to buy retirement homes in Spain or Portugal. In Spain, DM 120 billion is believed to be stashed under mattresses. And, in addition to the estimated DM 75 billion unaccounted for outside Germany, the Bundesbank estimates at least another DM 100 billion is being privately hoarded by elderly or other workers inside Germany. EU money-laundering regulations require anyone presenting a sum greater than DM 30,000 must be able to account for its origins, or face serious inquiries from tax police.

A timebomb is ticking, between now and March 2002, when these black notes will become worthless. That timebomb could well be the detonator to financial chaos, and an explosion, for the shaky world financial architecture.

# Challenges of Human Space Exploration

by Marsha Freeman

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# Germans Rediscover The Maglev Train

by Rainer Apel

A seminar of the Hamburg Chamber of Industry and Commerce on July 10, discussed the project of a “Eurorapid” linking Germany with the Netherlands, Scandinavia, Poland, the Czech Republic, Austria, and Hungary. The discussion tended more towards the technical-pragmatic than the broader conceptual side. The currently abolished but originally planned Hamburg-Berlin route would be at the center, with branches going to Denmark and Sweden; to the big cities in the Netherlands; to Warsaw and Krakow, and from there to Kiev; and to Dresden, Prague, Vienna, and Budapest.

At the seminar, Dutch spokesmen advertised an impending governmental decision, by the end of this year, for two projects in the Netherlands: 1) the Randstad project, linking the five biggest cities; 2) a route from Amsterdam to Groningen, with the option of extension into Germany towards Hamburg. In response, the government of the northern German state of Lower Saxony announced that it would campaign for the link from Groningen to Hamburg across the state’s territory, via Oldenburg and Bremen, once the Dutch decided for the maglev project. This was reiterated in another Lower Saxony statement on July 11.

On that date as well, the government of the western German state of North Rhine-Westphalia announced a joint venture together with Deutsche Bundesbahn (DB) railway, to build a 77 kilometer “Metrorapid” project, which would link five big cities in that state; today, the government of the southern state of Bavaria issued a similar announcement, on the formation of such a joint venture with Deutsche Bundesbahn, for a 30 kilometer line connecting Munich with the that city’s international airport. Either of the two projects, or both together, would receive federal government co-funding in the range of 4.5 billion deutschemarks, once construction began.

And in Schwerin, Gov. Harald Ringstorff of Mecklenburg-Prepomerania, in Germany’s northeast, departed from the ruling coalition platform between his Social Democratic Party (SPD) and the Democratic Socialist Party (PDS, the former East German communists), which expresses no interest in the maglev train. Ringstorff said he is for the “Eurorapid” as presented in Hamburg, because it gives a new meaning to the old Hamburg-Berlin project. Most of that line would run across his state’s territory. Ringstorff’s statement went only half-way, however, insisting that the project should be built by private sector investors alone, since the state had no extra money for the Transrapid.

## Chinese Deal Is the Incentive

The signing of a contract, in January, with China on the Shanghai-Pudong maglev line given impetus to discussion within Germany on maglev trains. To be precise, this is an incentive born out of utmost frustration that it is not only impossible, for phony ecological and budgetary reasons, to build a maglev line inside Germany, but that it *is* possible to build it outside of Germany.

Returning from a recent visit to China, former Hamburg Mayor Henning Voscherau reported an anecdote about his meeting Beijing with his old friend, former Shanghai Mayor and present Prime Minister Zhu Rongji. His Chinese host asked him if it were possible to revitalize the first commercial German maglev project from Hamburg to Berlin, which had been nixed by the German government in February 2000. Voscherau told him that he personally was all for it, but the government and Germany’s politicians did not want it. Zhu Rongji then told Voscherau jokingly that Germany (which developed the maglev technology, but has never built a real project to date) might one day still have its first maglev train — even if it were only on license from China.

This new incentive for maglev, however, has only been afoot outside of Germany’s present SPD-Green coalition government, which has shown no commitment to promote maglev technology at home, since the signing of the Shanghai-Pudong contract.

It was in the eastern state of Thuringia that the federal government crushed the last attempt at real political momentum for a grand maglev project. In January 1991, Gov. Josef Duchac of Thuringia, proposed a pilot grand infrastructure project to mobilize eastern Germany’s industry. He called for a maglev train connection from Berlin to Frankfurt am Main, via Leipzig and Erfurt (Thuringia’s state capital). Duchac, a leading Christian Democrat, met strong opposition with the national government of Christian Democratic Chancellor Helmut Kohl, who at that time was collecting DM 18 billion for the “German share” in the Bush-Thatcher Gulf War on Iraq.

Duchac attacked the government’s budget-balancing attitude, adding that it was a scandal that it was apparently easier to collect billions for that meaningless war, than to assign 5 billion deutschemarks for a meaningful infrastructure project in eastern Germany.

But ten years later, the maglev train has again found a number of prominent endorsers in the political establishment. For example, during the July 5 session of the Bundestag (parliament) on the 1994 maglev law, Hans-Michael Goldmann, a Free Democratic legislator from northwestern Germany, said that for the maglev train, “the best application is, basically, the Hamburg-Berlin route, continued to Scandinavia from Berlin on towards Warsaw, and from Hamburg on towards Groningen and Amsterdam.” Goldmann called for the construction of a grand maglev transport artery from the western border of the Netherlands to Poland, via Hamburg and Berlin.

# IMF and Energy Pirates Made Brazil's Electricity Crisis, 'California Style'

by Nilder Costa

*The following history of the systematic takedown of the Brazilian national electricity industry, was first published in the June 4-11 issue of EIR's Portuguese-language weekly, Alerta Científico e Ambiental.*

The current chaotic state of the Brazilian electricity grid has brought the country to the most predictable and catastrophic energy crisis ever suffered by the population during peacetime, imposing a drastic, yet merely palliative 20% cut in general electricity consumption, which will bring grave and unforeseeable damage to the national economy.

In reality, as we show below, the energy crisis constitutes a "loss of control" of the "controlled disintegration" model adopted for the Brazilian electrical industry by President Fernando Henrique Cardoso's government. He complied with accords reached with the Anglo-American establishment, by which the flow of dollars into Brazil would be maintained, in exchange for handing over the state electrical, telecommunications, and other companies.

The model's underlying premise, is that the Brazilian energy grid would be modified to allow the "natural gas cartel" of Enron and other energy multinationals linked to the Bush family, to play a central role in supplying electricity to Brazil. Imposing the gas cartel on Brazil, in turn, is but the cutting edge of the hoped-for "Energy Free Trade Area of the Americas" (Energy FTAA) pushed by the U.S. State Department.

As is his wont, President Cardoso is attempting to avoid his responsibility for the crisis, taking refuge in extemporaneous arguments of the sort that he made shortly before the collapse of the national currency, the real. This he blamed upon "the international financial crisis." Now, he blames the energy crisis on "St. Peter's moods," which did not bring the desired amount of rain. In both cases, Cardoso had made a very risky bet, to put off long-forecast crises until after the Presidential elections of 1998 and 2002, respectively.<sup>1</sup>

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1. In statements published in the June 19, 1997 issue of *Gazeta Mercantil*, Fernando Henrique Cardoso declared that what he most feared during his administration, was "a crash in the world financial system," adding that his government was betting on the world monetary casino: "Here, we are betting that this risk is a temporary one; you know, that in economics, as in politics, you always bet on something, because politics is the kingdom of the unpredictable. . . . Our bet is that we're in a phase in which we're changing the structural pattern of our productive system. . . . Yes, we're betting on this, and hope it will take three or four years."

Cardoso was re-elected in 1998, but he lost the bet, throwing the country into a grave monetary crisis, whose "solution" had embedded within it, the embryo of the current energy disaster. Under an agreement signed with the International Monetary Fund (IMF) in 1999, the state electrical companies, which control the generation and transmission of electricity in the country (its distribution was already privatized), were tacitly prohibited from making new investments, because any such investments would have to be counted as part of the public deficit, thus endangering the government's ability to meet the sacrosanct primary surplus. (The requirement that Brazil generate a "primary" budget surplus—i.e., excluding debt service payments—is the central conditionality of the 1999 IMF agreement.)

It is important to emphasize that this conditionality also had a dramatic effect on other vital areas of national infrastructure which are the state's responsibility. To get an idea of the brutal financial dictatorship imposed by the government's economic team, in its eagerness to achieve the goal of a primary surplus, look at the percentage of the budget actually allocated for the Ministries of Transport, Communications, and Mines and Energy, as compared to what had been initially appropriated for these three ministries: In 1999, 80% was paid; in 2000, 34%; and, in the first five months of 2001, 3%. The status of Brazil's highways, for example, is so precarious that Transport Minister Eliseu Padilha, himself, has already warned of a highway "blackout." This year, only 0.82% of his respective budget has been released!

In December 1999, the country escaped electricity rationing by only a hair, when the reservoirs of the Rio Grande and Parnaíba basins, which supply the Brazilian industrial heartland, reached their lowest levels in the 70 years since Eletrobrás began collecting data on water supply. Brazil avoided rationing, when the rains became abnormally heavy, and the crisis was put off for a year.

At the beginning of 2001, Cardoso bet again on the Summer rains, and lost, throwing the country into a crisis which is going to make Brazil "lose three or four years of development," according to the unimpeachable Luiz Carlos Mendonça de Barros, former minister and member of Cardoso's political group, for whom "it is unacceptable that [the energy crisis] occurred." Without a doubt, Mendonça de Barros's discontent stems from the fact that the supremely unpopular electricity rationing—which will worsen over the coming



*By the Cardoso government's electricity deregulation scheme, eerily like California's, Brazil's state energy company Petrobras has been forced to stop domestic energy development and take hyperinflationary natural gas imports from the same pirate companies—AES and George Bush's Enron.*

months, and can be expected to be repeated next year, when general elections are scheduled—shall form the counterpoint of the final requiem for Cardoso and his political group, whose initial project was to remain in power for at least 20 years.

### **The 'Saudi Arabia' of Electricity**

Before analyzing the process of “controlled disintegration” of the Brazilian electrical industry, it is necessary to understand some of its structural and operational characteristics. Decades ago, the industry's experts referred to Brazil as the “Saudi Arabia” of electricity, because nature had endowed the country with the mighty rivers of the plateau—the *Cerrado* or Central Plateau—which flow both in the general northerly direction (the Amazon, Tocantins, and São Francisco basins), and to the south (the Rio de la Plata basin). Once dammed in cascade, these rivers generate the cheapest energy in the world: The average cost of electricity produced by the most recently built hydroelectric plants is in the range of \$16 per megawatt-hour, and, for those whose construction cost has already been paid off, half of that.

Correctly, between 1950-90, successive governments, notably the military governments, invested heavily in hydroelectric plants, which today produce 91% of the electricity generated in the country, a situation unparalleled in the world. This fantastic comparative advantage was one of the primary reasons that Brazil's accumulated growth rate (GNP) over the last 100 years, was surpassed only by Japan.

In addition to the “free” availability of the fuel, the system permitted energy to be stored in liquid form in its immense

reservoirs, and managed adequately over two- to five-year periods, depending on the varying hydrological dry-rainy cycles (Winter-Summer) of the respective basins. The fact that they are different hydrological cycles, adds another great comparative advantage, given the possibility of “linking basins” through transmission lines, greatly optimizing the whole system, and lowering the risk of an eventual collapse.

If one basin becomes drier in a given year, water accumulated in previous years could be used, or “transferred” in the form of electricity from another basin. It is precisely these characteristics which determine the *modus operandi* of the Brazilian electricity system.

On the other hand, it is known that the addition of fossil fuel-generated electricity to the system allows an even greater optimization, in addition to other advantages inherent to the electrical stability of the system. Conceived in this way, fossil fuel plants should only operate when it is most useful for the system—that is, to compensate for energy not generated by the hydroelectric plants which are in a period of accumulating water for the next cycle.

Naturally, an optimized, interlinked, and harmonious operation of this system, within acceptable risk levels, requires experts of the highest competence with decades of experience.

It is no accident, that Brazil became a center of world-class excellence in all aspects of hydroelectric production, whether in the planning and building of dams, the manufacture of turbines and machinery (those of the Three Gorges in China, the greatest hydroelectric project in the world, are being built in Brazil), and in the operation of the system.



*Brazil's electrical industries are among the most skilled and experienced in the world: producing the turbines for China's huge Three Gorges project, for example; and here, steam vessels for Brazil's nuclear plants at the Angra site.*

Planning for the system was done by Eletrobrás, responsible for drawing up the Ten-Year Plans which, among other things, determined the construction of new hydroelectric plants or other projects, necessary any time the operational deficit of the system, present or future, reached 5%.

At that rate of risk, calculated by a model designed and refined by generations of experts, who were supplied with reliable facts on the hydrology of the basins and the real functioning of the economy (demand for energy), the Brazilian electrical system stood out for its high level of reliability, and low generating costs.

### **‘Controlled Disintegration’**

The “controlled disintegration” of the Brazilian electricity system began in 1993, when the privatization of the distribution companies—the “*filet mignon*” of the system—began. The rush to begin the process was such, that the National Electricity Agency (ANEEL), the regulatory body and centerpiece of the new model, was created *during* the privatization of the distributors.

The next step was the creation of the National System Operator (ONS), a private entity, and, last year, the Wholesale Energy Market (MAE), an electricity exchange.

To come up with a privatization model, the Brazilian government contracted Coopers & Lybrand, the British company with “experience” in the same process carried out in Great Britain. The result, inevitably, was the dismemberment, British-style, of the formerly interlinked and optimized system; generation, transmission and distribution, once privatized, would function at the whim of the market god.

Under this scheme, Eletrobrás’s extremely competent planning staff was dismantled—it was considered superfluous—and nothing similar was created to replace it, once planning became *indicative*: That is, the fundamental premise was the insane assumption that the companies operating in the market would invest in new projects whenever the price of energy, calculated on the basis of complex and questionable estimates of future deficits of the system, would project a profitable return on investment. This same criterion is used to “gauge” the basic price of electricity negotiated on the MAE.

Under this model, the whole system’s unified authority, which forecast and provided for future needs to satisfy the real demands of the national economy, was pulverized with the creation of ANEEL, ONS, and MAE, which did not see beyond their own navels. At the same time, the model eliminated the other well-defined chain of responsibility between a generator and the geographic area to which it must provide energy reliably, to meet its precise demand.

Under the British model adopted, whoever buys or installs a generating plant, has no goal but to obtain financial gains from the sale of energy, preferably on the MAE spot market.

The next item demanded was the raising of rates, considered “very low” by potential international investors. The first privatization of a distributor had to set an example, and it did: Light (Rio de Janeiro), was auctioned in May of 1996 to EDF (French), AES (American), and CSN (Brazilian), for 2.23 billion reals. Under the contract resulting from the privatization, Light would receive energy from the state generating company, Furnas, at \$23 per megawatt-hour, and would sell

TABLE 1  
**Brazil's Reservoirs Dropping, 1997-2000**  
 (Percent Capacity)

Year (December)	Southeast System	Northeast System
1997	65.5%	73.8
1998	46.3%	39.1
1999	28.5%	21.8
2000	18.1%	36.8

Source: Eletrobrás.

it to consumers for \$120, a more than fivefold increase. On average, the distributors passed on electricity at a value 2.5 times higher than what they paid the generators. Therefore, it is not surprising, that according to a survey carried out by the Consumer Defense Institute (IDEC), from 1995 to today, electricity rates charged to the Brazilian consumers have risen by 108% above the average rate of inflation for that period.

In sum, the average rate paid by the Brazilian consumer now matches the levels paid in the hegemonic powers, as demanded by the supposed international investors.

Despite all these incentives, the intended foreign investors were not interested in building new plants which were not natural gas plants, unless they were offered hydroelectric plants already built and paid off—such as those strategic plants belonging to the state sector company, Furnas, and even then, only under favorable conditions. It happens that the privatization of Furnas bogged down, in part due to the unstable model imposed by ANEEL, ONS, and MAE, over unexpected difficulties which arose in the “preparation” of the process (separating off Furnas’s nuclear component), and resistance by various nationalist sectors.

Still left to be completed in this “controlled disintegration” of the system, is the modification of the Brazilian energy grid, so as to make it virtually captive to imported natural gas. Although the idea is to have natural gas provide only 25% of generating capacity, this would be sufficient to control the whole system, as is seen today in the energy crisis.

### The ‘Energy FTAA’

Last May, the government lied, when it stated that it was unaware of the gravity of the energy crisis. There were innumerable warnings and written reports issued by specialists and experts for the “appropriate authorities,” months in advance, documenting the impending collapse of accumulated supply in the reservoirs—that is, the energy available to the system. **Table 1** shows the falling reservoir levels in the Southeastern System, the national economy’s most important, recorded in December of each year.

It is apparent that the government decided to consume the energy accumulated in previous years, betting on a deluge which never came, while the process of massive establish-

ment of natural gas plants was planned, pushed by an artificially induced energy crisis, fruit of the broader strategy of “controlled disintegration” of the Brazilian electrical system. That it happened in this precise way, is seen in the fact that Eletrobrás and Furnas were prohibited from investing in new plants and transmission lines, despite having funds readily available.

When the quasi-rationing happened in December 1999, as described earlier, the government concluded that the time had come to execute the plan to make 25% of the country’s electrical grid dependent on natural gas plants. In February 2000, Cardoso launched the Thermolectric Priority Program (PPT), which planned for 49 privately built natural gas plants, which would add close to 17,000 megawatts to the system between 2001 and 2004. To get beyond the written plan, Petrobrás was drafted to participate in 29 of these undertakings.

To direct the process behind the scenes, Cardoso named his son-in-law, David Zylbersztajn, president of the National Oil Agency (ANP).

With all this, there was, however, an impasse, since the presumed investors in gas plants demanded the dollarization of *all* the rates charged for generating electricity, since the natural gas imported from Bolivia is paid for in dollars through the “take or pay” system. That is, Brazil must pay for the gas, whether it uses or needs it, or not. This scheme obliged the fossil fuel plants to operate continuously, not complementarily, thus losing one of the system’s comparative advantages, as explained earlier.

This impasse was only recently resolved, at the height of the crisis, after threats by Enron and AES—both up to their necks in the scandal exploding over their role in creating the California energy crisis through their manipulation of the spot market—to stop investing in Brazil. Once again, it fell upon Petrobrás to assume the risks, in this case, of the exchange-rate variations of the gas price for a year, after which the price difference would be automatically passed on to the consumers through rate increases. Weeks before, Zylbersztajn had already forced Petrobrás to share the Brazil-Bolivia gas pipeline with its competitors, Enron, British Gas, and Chile’s Enersis.

It happens that gas exploration in Bolivia is virtually controlled by Enron, Shell, British Gas, and other energy multinationals, which even auctioned off the whole logistical transport system of YPFB (Yacimientos Petrolíferos Fiscales de Bolivia), Bolivia’s former state oil company. Shell also owns the Camisea concession, the giant gas reserve discovered in Peru, near the Bolivian border, whose future production could be connected to the Bolivian gas pipeline system, and from there to the Brazilian system, participating also in gas exploration in Venezuela and in Brazil, together with Petrobrás. In 1997, natural gas was the star attraction at the Seventh Global Conference on Energy Studies in Latin America, held in London, at which occasion Dick de Jong, director of Shell Interna-

tional, celebrated the end of Petrobrás's monopoly, and characterized the future for gas in Brazil as "exciting": "My crystal ball tells me that demand in the region, including imports and exports could double over the next 25 years," he said.

## The Nuclear Factor

The harnessing of Brazil's electrical system to natural gas imported from Bolivia, which, beyond the clear disadvantage of the "take or pay" scheme, is insufficient to meet Brazilian electricity needs, introduces other variables of great strategic importance, once the decision-making power over its supply and price is located outside of Brazil.

On the other hand, the electrical system needs the addition of thermal generation, for the reasons already explained. The obvious solution is to use nuclear energy sources for the following reasons:

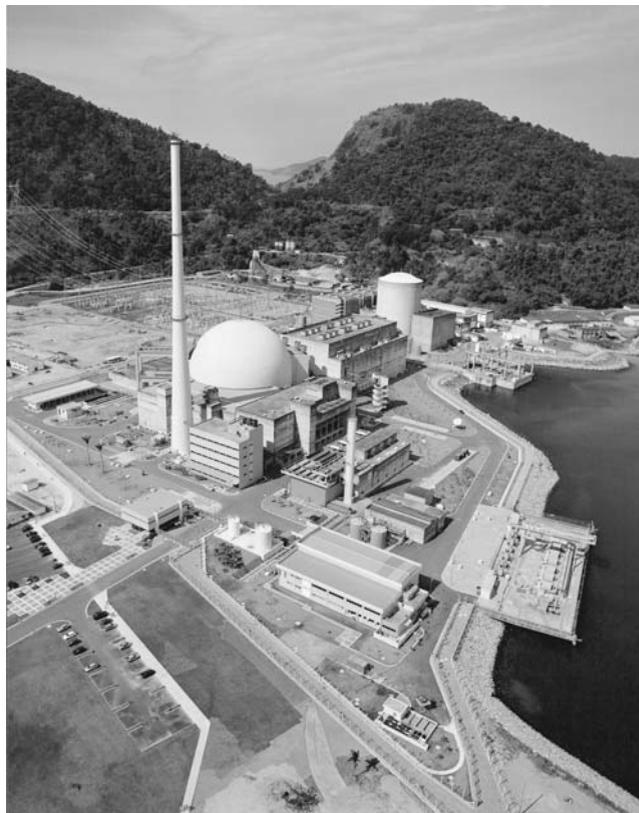
- Brazil has already mastered the technology for the entire conventional nuclear cycle, including fuel production and the planning and construction of nuclear plants, as seen in the Angra 2 nuclear plant;
- Brazil has the sixth largest uranium reserves in the world, and is totally independent in terms of fuel;
- Nuclear power would permit the use—and not the dismantling—of the enormous technical and scientific know-how built up over decades, at great cost to the nation;
- Finally, but not least important, it would create the minimal conditions necessary for the country to enter, de facto, into the scientific-technological domain of nuclear fusion, source of clean and unlimited energy, without which humanity will, inexorably, collapse from within.

In this context, building the Angra 3 plant is crucial, but won't be easy, due to the large anti-nuclear offensive in Brazil, personified by such individuals as José Goldemberg, whose influence on energy policy was evident in the Collor de Mello government (1990-92) and carried over into the Cardoso Administration through his protégé, Zylbersztajn.

Zylbersztajn is a declared enemy of Angra 3, and is one of the "guiding lights" of Greenpeace, according to *Epoca* magazine. As Energy Secretary of São Paulo state during the first administration of Gov. Mario Covas, he "buried" the Navy's project to develop a 100 megawatt nuclear reactor. Aside from his line that, "Anyone who appeals to the courts will get a blackout in exchange" (an arrogant display of contempt for citizens' constitutional rights), Zylbersztajn has another one from years ago, which demonstrates the depth of his knowledge of nuclear plants: "Any technology which requires an evacuation plan, can't be considered safe."

In statements published in the June 11 issue of *O Globo* on the building of Angra 3, to be decided at the next meeting of the National Council on Energy Policy, of which he is a member, Zylbersztajn was categorical: "A decision of this magnitude, which has no impact on the current crisis, shouldn't be made this way."

To successfully escape the U.S. establishment's "Energy



*The Angra 1 and 2 nuclear power plants, in operation. In its current, artificially created but extreme power crisis, Brazil needs to build the planned third unit, as well as expanding hydroelectric and fossil-fuel capacity of its own electricity production.*

FTAA," Brazil should, for reasons of state, make some strategic decisions, along the following general lines:

- Halt the process of privatizing and deregulating the electricity sector, returning to the system of integrated generation-transmission-distribution, and eliminating the option of a "free market" in energy.
- Through state companies, or in partnership with private companies, invest heavily in building new hydroelectric plants and transmission lines, for which foreign currency would be unnecessary, requiring only the sovereign issuance of credit. Eventually, some plants could be directly auctioned to the private sector.
- Immediately begin building Angra 3, and plan the construction of other nuclear plants.
- Halt the Priority Thermo-Electric Program, but keep projects already under way.
- Consider new hydroelectric plants to be built as part of the integrated plan for developing the whole basin, modelled on the U.S. Tennessee Valley Authority (TVA), and the more recent, inexplicably abandoned, PRODIAT (Integrated Program for the Development of Araguaia-Tocantins). As part of this approach, building waterways and linking basins, should be a priority.

## LaRouche Addresses Russian Duma on Economic Crisis

by Jonathan Tennenbaum

June 29, 2001 may well be remembered in the future as an historic day. U.S. 2004 Presidential pre-candidate Lyndon H. LaRouche, Jr. addressed, for the first time, an official hearing in the Russian Parliament—the State Duma—on the key points of his policy for reorganization of the world financial system and launching a global economic recovery centered on Eurasian cooperation. The parliamentary hearings, “On Measures To Ensure the Development of the Russian Economy Under Conditions of a Destabilization of the World Financial System,” were held under the chairmanship of Sergei

Yu. Glazyev, head of the Duma Committee on Economic Policy and Entrepreneurship.

In addition to Lyndon LaRouche, who was the first speaker at the hearing, the event was also addressed by Schiller Institute (Germany) President Helga Zepp-LaRouche, Schiller Institute scientific adviser Dr. Jonathan Tennenbaum, Italian Sen. Ivo Tarolli, Ambassador of Malaysia to Russia Datuk Yahya Baba, and top Russian financial experts and scholars, including the famous Academician Dmitri Lvov, head of the Economics Division of the Russian Academy of



*Lyndon LaRouche addresses a committee of the Russian State Duma, on June 29, 2001, at hearings “On Measures To Ensure the Development of the Russian Economy Under Conditions of a Destabilization of the World Financial System.”*

Sciences. The event was attended by some 150 parliamentarians and government advisers, and simultaneously broadcast to all Duma offices, and to the Kremlin, by closed-circuit television. Official written transcripts were issued the following Monday, July 2.

Although LaRouche's authority has been rapidly growing worldwide, especially since the collapse of the "New Economy" bubble in the United States and elsewhere, this was the first official invitation of its kind, coming from the parliament of a major world power. Observers pointed to the significant irony, that the invitation came from Russia, and not LaRouche's own U.S.A.—the epicenter of the ongoing financial crisis.

The day before the Duma hearings, an international press conference was held at the famous Central House of Journalism in Moscow. Before a packed audience of journalists and television cameras, Glazyev, Lyndon and Helga LaRouche, Jonathan Tennenbaum, and the Russian finance expert Dmitri Mityayev spoke on the main themes to be addressed at the Duma hearing. The press conference was attended by 5 television stations, 2 radio networks, and 17 major newspapers and magazines, and broadcast simultaneously on the Internet. Excerpts of the press conference were broadcast on several television stations the same evening (see last week's *EIR*).

The official parliamentary hearings began at 10 a.m. on June 29, in the building of the Russian State Duma. We present below extensive excerpts from the proceedings, some translated from Russian and some in the original English.

In the evening, after the successful Duma hearings, members and close contacts of the Schiller Institute celebrated a dinner toast, declaring June 29, 2001 to be "Schiller Day in Moscow."

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Sergei Yu. Glazyev

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## Russia Is Facing Financial Shocks

*The following are Sergei Yu. Glazyev's opening remarks at Parliamentary hearings "On Measures To Ensure the Development of the Russian Economy Under Conditions of a Destabilization of the World Financial System," held in the Maly Zal of the building of the Russian State Duma, June 29, 2001. The hearing was under the chairmanship of Glazyev, who is chairman of the Duma Committee on Economic Policy and Entrepreneurship. The text has been translated from Russian, and subheads have been added.*

Our Parliamentary hearings will be devoted to an urgent prob-

lem: the adaptation of the Russian economy to threats from the global financial crisis.

We remember very well the events of 1998, when within a period of only two weeks the Russian economy was devalued by a factor of 30. And to this very day, millions of citizens cannot recover their savings, which were lost as a result of the financial collapse, and they probably will never get them back. The Russian banking system has not regained its maximum pre-crisis level, for either assets or capitalization. Therefore, it is very important for us today, when the Russian economy has entered a growth phase, to carefully evaluate our own sad experience and the experience of other countries, in order to ensure that the potential threats, connected with the deepening of the global financial crisis, do not interrupt the recovery of our industry and our economy as a whole.

The situation appears rather contradictory. On the one hand, we are told that there is no direct danger of a financial catastrophe, and, in particular, that the American economy, according to the statements of many officials, will successfully emerge from the state of instability which arose last year and at the beginning of this year. Nevertheless, there exist certain laws of economic development, whose action cannot be avoided, and which we should always bear in mind, regardless of conjunctural economic fluctuations.

We have invited well-known financial experts to our hearings, working on financial markets, macroeconomic forecasting, and the legal regulation of investments. Among them I am grateful to Mr. LaRouche, Mrs. LaRouche, Mr. Tennenbaum, and Mr. Karl-Michael Vitt, for agreeing to our proposal that they put forward the results of their investigations, which, in general, are quite well-known in the world and which show the depth of the crisis situation in the global financial system. We have colleagues here, who accepted our invitation. On behalf of the Committee on Economic Policy, I want to express our thanks to them.

Unfortunately, our Deputies, and the Russian public in general, have only a weak appreciation of the real data on the state of the global financial system. One can say very directly, that neither in our press, nor in discussions, is this theme regarded today as an urgent one, requiring attention.

I do not wish to run ahead of the presentations. I hope, or rather I am certain, that they will be interesting and comprehensive. But, I would like to say a few words, perhaps, to shape our discussion.

### The Bubble Economy

As you can see from reports received—in spite of the appearance of prosperity, both in our country, and in the leading Western countries—in reality, the global financial system is experiencing rather major problems. Beginning in 1971, we have had a unique situation in the world, when the U.S. dollar has assumed the role of a global currency, whose emission is not subject to any serious restrictions.

The financial structures, tied to the money-emission center of the American currency, function under loose budgetary



*Dr. Glazyev (center) chairs a press conference at the Moscow Press Center on June 28.*

constraints, as we say. That is, they have access to refinancing in dollars from the Federal Reserve System, corresponding to the worldwide demand for dollars. This demand has been artificially supported since 1971, by a variety of speculative financial activities. These speculative activities suck up an enormous quantity of capital, thanks to the principle of financial pyramids, upon which they are based, according to which artificial demand is created for one or another sort of financial security, and derivatives thereof.

The result of this, is the so-called bubble economy, when behind a facade of furious economic activity and high profits on the financial markets, what we really see is the bankruptcy of the real sector of economy, and the deterioration of real productivity. And all the apparent prosperity is built simply upon the redistribution of national wealth to the advantage of financial speculators. Financial pyramids always result in a crash—the collapse of those national financial systems, which have been drawn in, or allowed themselves to be drawn into of this type of financial pyramid.

The crash, which Russia experienced, of course, had internal causes. Above all, there was our own pyramid—first, the pyramid built from the securities of privatized enterprises, and then the GKO pyramid, which inevitably collapsed, dragging with it billions of dollars of currency reserves, which escaped abroad, and causing 400 billion rubles in losses. But the people who speculated on our markets, were able to increase their fortunes dozens of times over. It is estimated, that for \$1 invested for speculative purposes into the Russian financial system, the lucky investors ultimately, or, more precisely, by the middle of 1998, could obtain \$20-\$30 in accu-

mulated profit. By moving this money out of Russia before the financial crash, they could put it back in later, acquiring property rights in the Russian economy worth \$900 in pre-crisis prices, due to the devaluation of all assets of the Russian economy by a factor of 30 after the financial crash.

### **The Chaos Is Out of Control**

This example illustrates the magnitude of the loot, which can be obtained in the world economy by those who skillfully manipulate it into a state of managed chaos. But the problem today is, that this chaos has gone out of control.

The national debt of the United States exceeds all reasonable limits. The financial systems of Southeast Asia and Russia were destroyed following the 1997 financial crisis episode. Tens of billions of dollars were required, to save the financial system of the Latin American countries from the crash. But the stresses have only grown since then, because the machinery for extracting speculative superprofits cannot stop all by itself; it moves according to real laws.

And today, we see that the center of crisis is shifting to the nucleus of the global financial system. The shocks, which occurred on U.S. markets last year and at the beginning of this year, would have been regarded as financial catastrophes, if they had taken place five years ago. But, today, we are already so accustomed to permanent financial crisis, that we don't even take notice that the loss of \$3 trillion on the American stock market for high-tech corporations, and related segments of the market, is a very serious shock, after which one should expect further shocks to the global financial system. In other words, the flywheel of unlimited financial specu-

tion, fed by the limitless emission of the global currency — which role is currently played by the dollar — has been cranked up to full power, and no one can stop it. It may still be maintained in a state of seeming equilibrium. But, as we know, financial pyramids cannot exist forever.

Given, according to economic forecasts, that the destabilization of the global financial system will deepen in the near future, we should prepare ourselves even now to deflect the consequences and destabilizing effects of the global financial crisis on the Russian economy.

The Russian economy today is very exposed to the world financial system, and very vulnerable. Suffice it to mention that in the functioning of the Russian economy, the Russian national currency is used less than other world currencies. If we look at it, Russian exports and imports are expressed in dollars. Add to this our currency reserves, denominated in dollars. Add to this the dollar-denominated obligations of Russian banks. Add to this dollar-denominated payments, and the dollar-denominated savings of our citizens. It turns out that our financial system is essentially a surrogate continuation of the world financial system, where the dominant role is played by the U.S. dollar.

In the event of a destabilization of this system, the Russian economy will undoubtedly be subjected to very serious shocks. It is not difficult to estimate their scale. It will be, I think, comparable to the consequences of the financial crushing of 1998, if we don't succeed in protecting our financial system from the destabilizing influences of the global financial crisis.

### **What the Hearing Will Address**

This is basically what we want to address in our parliamentary hearings: to discuss possible ways of increasing the stability of our financial system; guaranteeing economic security in a situation of deepening financial crisis. To think about strengthening the ruble, not in terms of strengthening the ruble's exchange rate, but in terms of expanding its sphere of utilization as a full-fledged Russian currency, which would be defended against the possible destabilizing effects of the global financial system. To think about strengthening the stability of our banking system in this situation. And, finally, to think about increasing the stability of the Russian economy as a whole. We are talking both about a diversification of our currency reserves and about the accumulation of real reserves, material reserves, which would permit the Russian economy to operate normally in a situation of destabilization of the global financial system. It is necessary to think about measures, which would allow us to maintain economic cooperation with nations abroad, in a situation, when the system of international payments may have been destroyed to a significant extent. And here, obviously, it is necessary to speak about the possibilities of moving to the use of national currencies for payments, first of all, among the CIS [Commonwealth of Independent States] members, with the European Union, with

China, with India, i.e., with our main trading partners, on whom our critical imports depend. . . .

So, with your permission, I want to open our parliamentary hearings and to give the floor to our guest, the well-known philosopher, historian, and economist Mr. Lyndon LaRouche.

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Lyndon H. LaRouche, Jr.

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## **Policy Changes Needed To Overcome the Collapse**

*This is the testimony of U.S. Democratic Presidential pre-candidate Lyndon H. LaRouche, Jr., to the Russian State Duma's Economics Committee, in Moscow on June 29, 2001, as delivered.*

Presently, the world as a whole is dominated by the fact, that we are in the end-phase of the IMF system, at least as it has existed in the form it developed following U.S. President Nixon's introduction of a so-called "floating exchange-rate" monetary order in mid-August 1971. Contrary to some hysterical propaganda coming out of the now deeply troubled U.S. Bush Administration, nothing can save the present world financial and monetary system in its present form.

A continued refusal to accept certain necessary, sweeping reforms in those systems, would bring about not only an economic catastrophe worse than the worst period of the 1930s economic depression. The present crisis, unless it is stopped by drastically needed reforms, will also be a demographic collapse more or less comparable to what is called by historians "the New Dark Age," which dominated Europe following the Fourteenth-Century bankruptcy of the so-called Lombard banking system.

Therefore, to speak of any economic policy which does not include an early and sweeping reform of the IMF system, is worse than a waste of time.

We can overcome this collapse, but only if we are able to bring about a certain degree of international cooperation around four general intentions. The four essential classes of sweeping changes in the existing monetary and financial system, are as follows.

### **Changes That Must Be Made**

1. The total accumulation of indebtedness in the world today vastly exceeds the amount which could ever be repaid under existing terms and conditions of repayment. If either the creditors or debtors wish to survive, much of this indebtedness



*Lyndon LaRouche addresses a press conference on "The Economy of Russia Under Conditions of Destabilization of the World Financial System," at the Moscow Press Center on June 28.*

must be simply cancelled, as without merit. This includes what are in fact purely gambling debts, called financial derivatives.

What remains of morally legitimate debts, should be reorganized, in both amounts and terms, in the degree such reorganization is an essential precondition for sustainable physical-economic growth in per-capita output. In this reorganization, we must follow the advice of former U.S. Treasury Secretary Alexander Hamilton, in insisting that the honorably contracted part of the nation's official debt, must be defended, as a precondition for its power to create new credit in the future. The principal amount of all other debt is negotiable under the conditions of a world crisis as disastrous as the present one.

2. As a practical political measure, the revision of the international monetary and financial systems must incorporate the best features of the 1945-1958 cooperation between the U.S.A., Western Europe, and Japan. This must be a vigorously protectionist form of monetary and financial system, solidly based on true partnership among perfectly sovereign nation-states.

3. This reorganization of the world monetary and financial systems, must be based upon the use of large-scale, long-term cooperation in infrastructural development within, and among nations, and heavy emphasis upon adopted targets of scientific and technological progress. The pivot for world economic growth, shall be a new system of transcontinental cooperation among the sovereign nation-states of continental Eurasia.

4. Those regions, within and among nations, which can generate "fountains" of scientific and technological output to regions which are deficient in their available supply of such technology, must be envisaged as suppliers of not money-

loans, but long-term purchasing credit, at nominal borrowing-costs, for that purpose. Continental Eurasia should be the center of such global economic recovery and growth, but all the world will benefit through participation as partners in such an effort.

Since the general cycle of development based upon the combination of infrastructure and more advanced technologies is approximately a quarter-century, the system of credit and payments should be based on cycles of about a generation, and at simple interest-rates on borrowed purchase-credit at between 1% and 2% simple interest.

Under the conditions created by a general bankruptcy now pervading the world's principal banking systems, the required credit must be generated by political actions of sovereign governments, using newly created national-banking institutions as the pivotal agencies through which relevant agreements are coordinated.

Inevitably, there will be many who scream in protest against the return to the protectionist practices associated with the names of economists such as Leibniz, Alexander Hamilton, Friedrich List, and Henry C. Carey. No amount of such screaming will change the basic fact, that the system of "free trade" and "globalization," has proven itself a catastrophic failure, relative to the protectionist policies of the 1945-1958 interval. The U.S.A., the putatively leading economy of the world, is presently bankrupt, and under any continuation of the Bush Administration's present policies, it is hopelessly bankrupt. In the meantime, the movement toward cooperation within continental Eurasia, already represents the cornerstone for the kind of cooperation needed to rescue at least much of the world from the presently onrushing global financial, monetary, and trade crisis.

## The Role of the U.S.A.

It would appear to many, that, since the present U.S. Bush Administration is hysterically opposed to any reforms along the lines I have outlined, the reforms I have indicated would be unrealistic ones. Behind that Administration's mask of mixed self-delusion and willful deception, the reality is quite different than many around the world have been misled to believe.

If you look at the widely circulated broadcast and other reports I have given since late November of this past year, the current Bush Administration has followed the ill-fated course of policy-making I had warned it would, during the period prior to Jan. 20 of this current year. Already, as a result of Bush Administration blunders against which I had warned, the first phase of a political revolt against the new Administration has occurred, in the form of a Democratic Party regaining of control of the U.S. Senate.

Now, as the second quarter of 2001 has been a worse catastrophe than the first quarter, and the third is on the way, the currently leading internal political issues of the U.S., energy, inflation, and health care, will be taken over by a growing panic over the obvious onrush of a general economic depression.

With the presently accelerating collapse of the U.S. as the world's chief importer of last resort for Asia and other parts of the world as a whole, the world is near to that sense of global crisis, at which the need for a general, more or less planet-wide monetary and financial reform will be a leading theme of political discussion in many parts of the world, including the U.S.A. itself.

I shall not predict that the U.S.A. will be prepared to propose cooperation with the kinds of economic and related cooperation with which President Putin's efforts are associated. I merely say that under the likely changes in mood now developing within the United States, the dumping of fanatics such as Zbigniew Brzezinski, in favor of U.S. cooperation with a Eurasian development perspective, ought to become U.S. policy. It should be seen as a policy well worth working to make a reality.

A growing number of influential U.S. circles, within the U.S. Democratic Party, and other circles, are now persuaded that my warnings and proposals are relevant. I am presently enjoying some significant political support for these efforts inside the U.S. and elsewhere. However, since, in politics, nothing good is ever guaranteed by fate, we must work all the harder for success.

Thank you.

**Sergei Glazyev:** Perhaps you will sit here [at the dais], to answer questions. If there are no questions now, I think they may arise later, and we can come back for discussion, especially because we have planned a series of presentations, which will provide additional food for thought and conclusions.

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Jonathan Tennenbaum

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## The Financial Crisis Grips the United States

*Jonathan Tennenbaum is a scientific adviser to the Schiller Institute. The text has been translated from Russian, and sub-heads have been added.*

I would like in my presentation to focus on some fundamental aspects of the global financial crisis, especially the nightmarish situation that has developed in the American economy and financial system.

Ordinary people most likely would say, "We in Russia would like to have the problems that the Americans have. The Americans are so rich, that things could never be as bad as they are here." Indeed, there's a lot of money in the United States—*too much*. That in itself is a main symptom of the illness. These monetary aggregates are not connected with the creation of real wealth, but were generated through gigantic monetary emissions by the Federal Reserve System, combined with the so-called credit multiplier of the banking system.

In this way, during the 1990s the greatest financial bubble in human history was created inside the financial systems of the United States and other countries. That bubble is now collapsing. And, in contrast to the illusions of some monetarists, this collapse process is absolutely irreversible in terms of its destructive effect on the world economy as a whole.

I would like quickly to show you some graphs, which I think represent certain essential aspects of the problem in the world, and America in particular. First of all, you can see here what LaRouche calls his "Triple Curve" (**Figure 1**), which gives a qualitative representation of the crisis. On the one hand, you have a steep growth of the nominal value of financial assets—stocks, bonds, and so forth—shown by the upper curve. At the same time, there is growth, or expansion of the money supply, both the direct printing of money, and the expansion of the effective money supply through the banking system. That is the second, middle curve. The money supply is expanding, but not as rapidly as the nominal value of the financial aggregates. This was the situation approximately two years ago.

The third curve, the descending one, shows the real growth of the physical economy. You can see this worldwide—that the world economy is experiencing negative growth. I am talking not about the monetary side of the world economy, but the real, physical economy; the real, material standard of living; the condition of infrastructure, and so forth.

FIGURE 1

**A Typical Collapse Function**

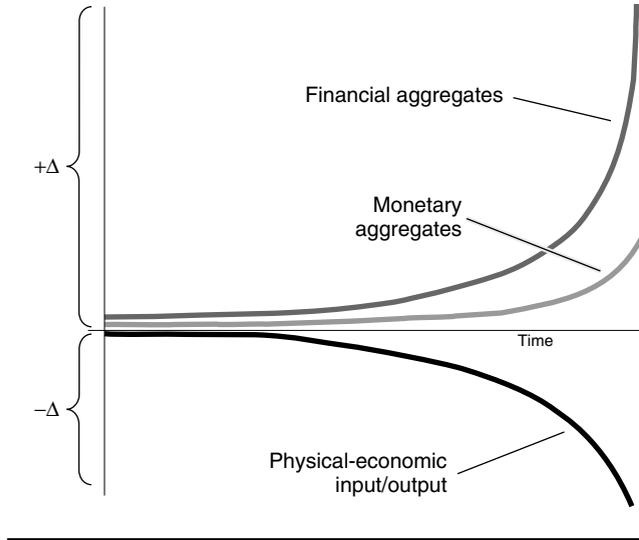
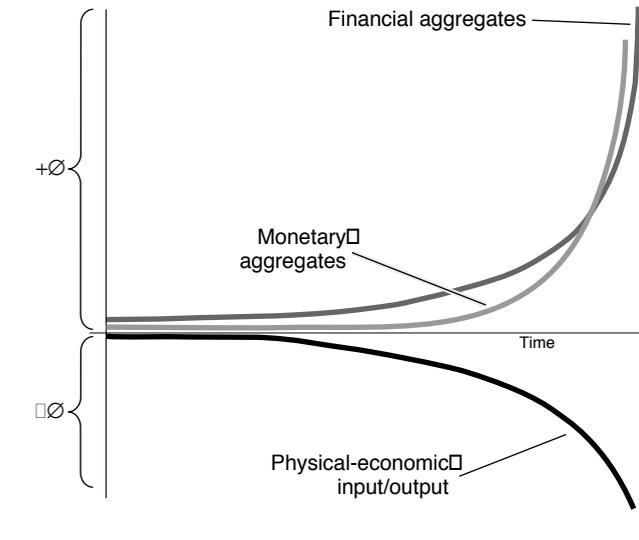


FIGURE 2□

**The Collapse Reaches a Critical Point of Instability**



In other words, there is net looting. Some investments are made, but at the same time, the scale of the looting of the world economy’s productive assets is so enormous, that the net physical growth of the world economy is negative. The divergence of these three curves represents the main mechanism of the crisis we are now experiencing.

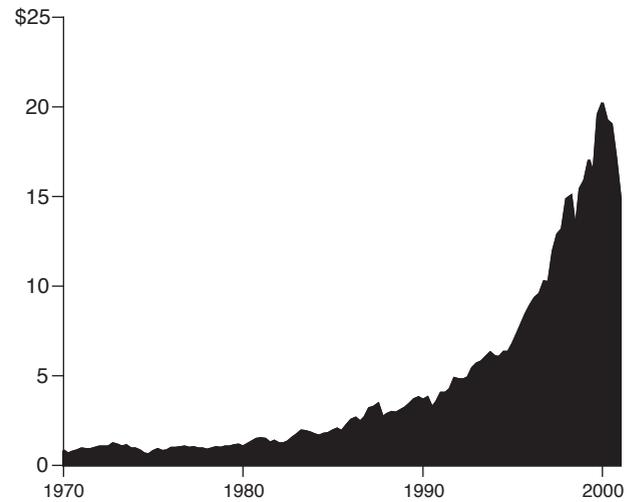
**A Shift in the Situation**

My second graph (Figure 2) provides a qualitative representation of the situation that has developed during at least

FIGURE 3□

**Capitalization of U.S. Stock Markets□**

(Quarterly, 1970 - March 2001, Trillions \$)



Source: Federal Reserve.

the past 12 months, where the growth of the nominal financial value of shares, and so forth, has begun to stagnate. There has even been a collapse of the stock market and other indicators. The growth of the financial asset bubble has stopped, while the pumping of money into the economy continues. In other words, the expansion of the money supply continues, but this mechanism of pumping up the economy by means of increasing the money supply is less and less effective.

Here we see (Figure 3)—related to the top curve of Figure 2—the steep growth of world stock market capitalization, especially in the New York market, which people are familiar with. As I said, the situation has now changed toward stagnation, and even collapse.

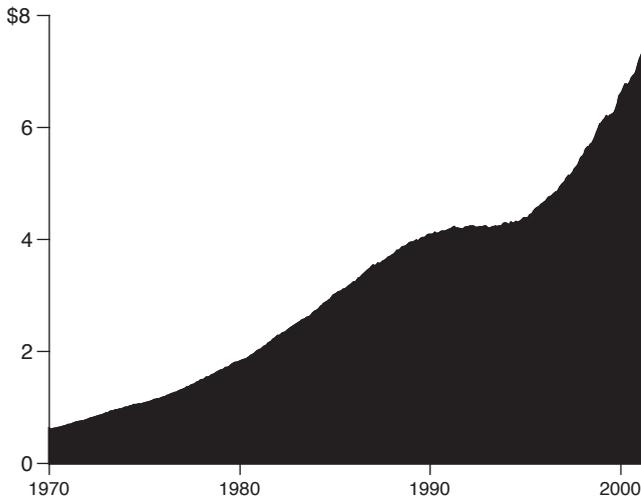
If you look at the expansion of the money supply in the United States, the so-called M-3, you see that there was an important turning point in 1994-95 (Figure 4). At that time, the U.S. Federal Reserve launched its liquidity-pumping policy, of very rapidly increasing the money supply.

It is very important to see that the so-called “economic miracle” in the United States during the past decade, was created by means of a colossal accumulation of internal indebtedness (Figure 5). Everybody talks about the debt problem of Russia, or other countries. But the U.S. economy has the greatest accumulation of debt in the world. Officially, U.S. domestic debt is at the level of \$26-30 trillion. Half of this is corporate debt, and the other half comprises household debt and the debt of the Federal government.

A very interesting aspect is the creation of new debt, that is, the increase of U.S. corporate debt through bank credit and corporate bond issues (Figure 6). You can see the steep

FIGURE 4  
**U.S. M3 Money Supply**

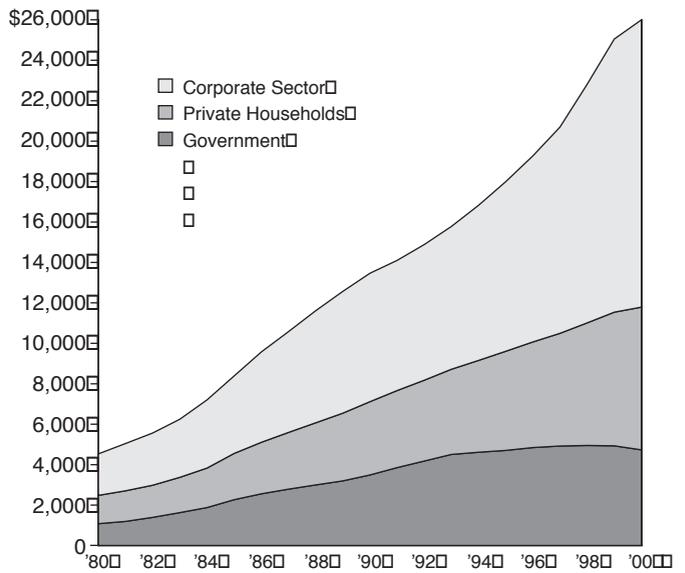
(Monthly, 1970 - May 2001, Trillions \$)



Source: Federal Reserve.

FIGURE 5  
**U.S. Total Debt**

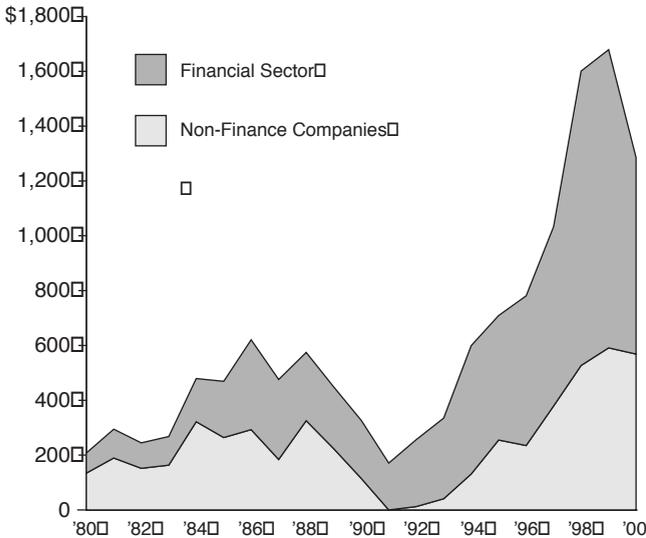
(Billions \$)



Source: "Flow of Funds Accounts," Federal Reserve.

FIGURE 6  
**New Debt of U.S. Corporate Sector**

(Billions \$)



Source: "Flow of Funds Accounts," Federal Reserve.

growth of corporate indebtedness in the mid-1990s, above all in the telecommunications sector, and generally the so-called New Economy sector, which is supposed to be the basis for the so-called economic miracle in the United States and other countries.

The growth of household debt in the United States (**Figure 7**) shows that this "miracle" is not based on any stable household income, but rather on the expansion of consumer credit. Many U.S. families are now hopelessly in debt, due to the use of credit cards, and so forth.

Typical for the United States and other countries now, is that the savings rate has become negative (**Figure 8**). One reason is the growth of the stock market. People took their money out of the bank and put it in the market. Now you have a situation, where about half of American household assets are invested in the stock market. As a result, the collapse of the stock market not only means losses for speculators, but also very serious losses for ordinary people.

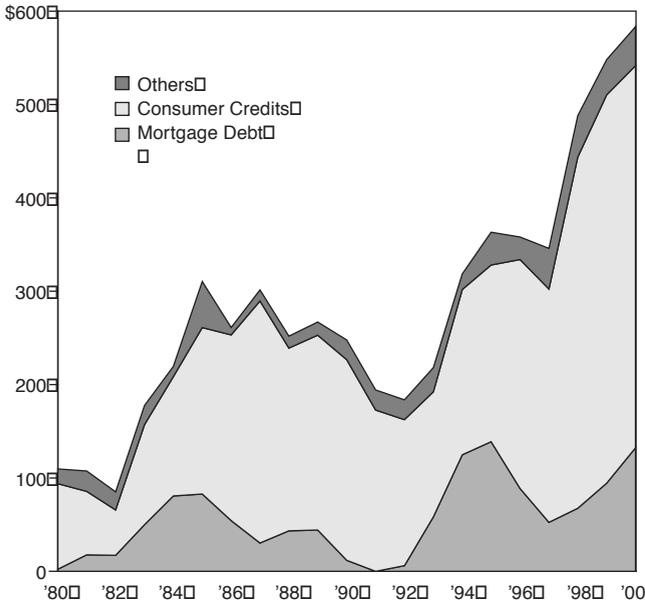
**Figure 9** is not terribly important, but it is the Dow Jones Index, which you can see has stagnated during the past two years. The market is highly unstable. **Figure 10** shows the so-called Nasdaq index of stock prices for so-called New Economy firms—telecommunications, and so forth. This index has fallen by 50% during the past two years.

Very briefly, I shall show you the echo of these phenomena in the U.S. media. The first picture (**Figure 11**) shows that many hospitals are being closed, including the only public hospital in the U.S. capital, Washington, D.C. It is closed now.

The energy crisis has gripped California, about which I shall say more in a moment. In much of California, the electricity system doesn't work for periods of time (**Figure 12**). Not only in California, but in many other states, schools are unable to pay for power and heat, because of the sharp increase

FIGURE 7  
**New Debt of U.S. Private Households**

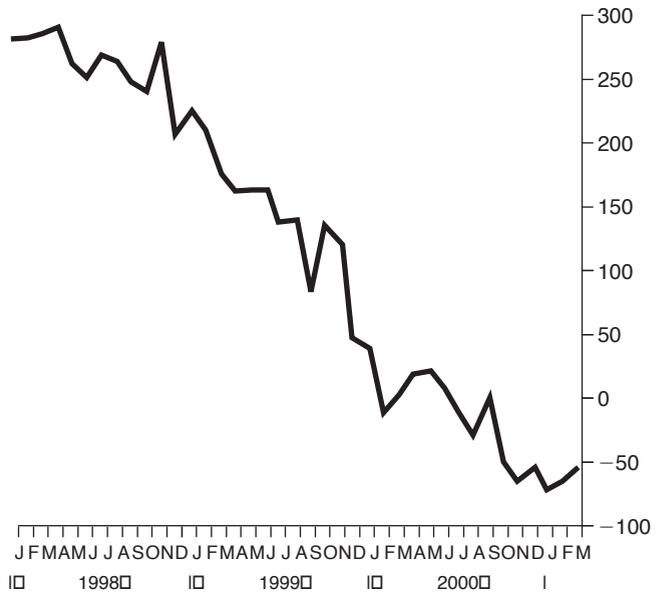
(Billions \$)



Source: "Flow of Funds Accounts," Federal Reserve.

FIGURE 8  
**Savings Collapse, U.S.**

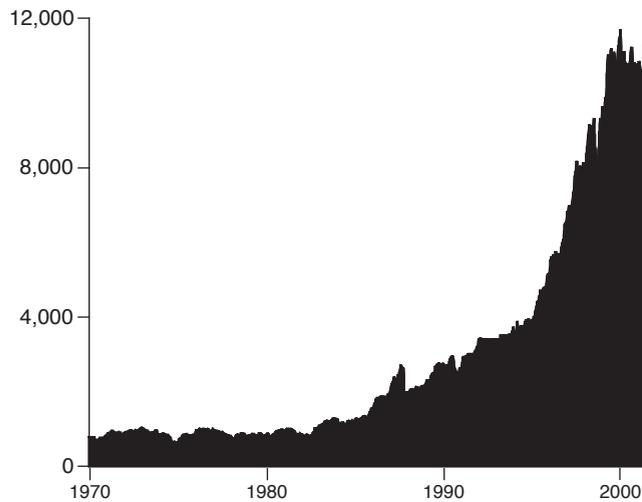
(Billions \$ Per Year)



Source: Department of Commerce.

FIGURE 9  
**Dow Jones Industrial Average**

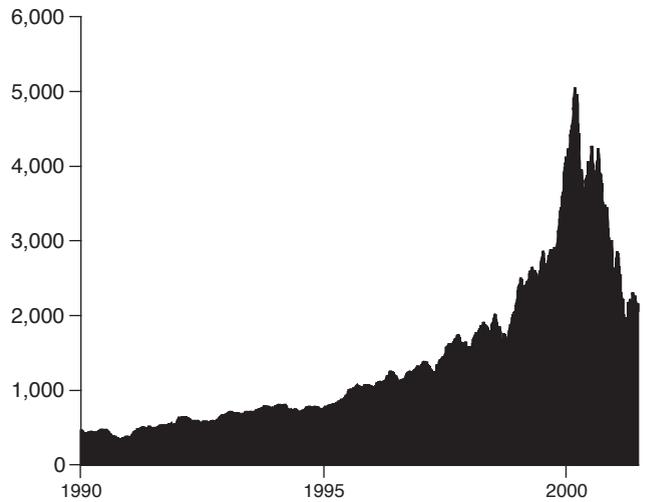
(Weekly Closings, 1970 - July 2001)



Source: Dow Jones.

FIGURE 10  
**Nasdaq Composite Index**

(Daily Closings, 1990 - June 2001)



Source: Nasdaq.

FIGURE 11

**Weather**  
 Today: Mostly cloudy, muggy. High 82. Low 66.  
 Monday: Partly sunny, late storms. High 84. Low 68.  
 Details, Page C10

**The Washington Post**  
 SUNDAY, JUNE 24, 2001

**D.C. General Sends Off Its Last Patient**  
*Tomorrow's Shutdown, and Resulting Health System, a Major Gamble for City and Mayor*

By AVRAM GOLDSTEIN  
 Washington Post Staff Writer

But Mayor Anthony A. Williams (D) and the D.C. financial control board concluded last year that those positive factors were outweighed by persistent management failures and the hospital's growing demands on the city budget. So much money went into it that the city could afford few other needed health programs, the administration said.

The mayor boldly gambled that a consortium of private medical providers could care for the city's uninsured and improve the city's overall public health—and save taxpayer money as well. Williams said he has examined innovations in indigent care tried in other large cities and found none to be as “far-reaching” or “inclusive.”

The mayor and his aides forged ahead despite relentless emotional confrontations with the D.C. Council, organized labor, the clergy and hunger strikers. Opponents say that patients have already been hurt by the routing of ambulance...

See HOSPITAL, A6, Col. 1

**Yug Mov Extr Milk**  
 Former P Face War  
 By R. JEFFREY S.  
 Washington Post Staff Writer

SKOPJE, Macedonia (AP)—Macedonian President Kiro Gligorov said today that it was crimes suspects opening the door to the 1990s genocide and...

FIGURE 12

Founded 1857  
 Volume 289

**The Sacramento Bee**  
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 The Sacramento Bee

TUESDAY  
 March 20, 2001

www.sacbee.com

Measuring power demand  
 The lines show electricity consumption hourly across most of California on Monday compared to the two previous days of the past two summers.

August 16, 2000  
 Peak: 43,794

July 12, 1999  
 Peak: 43,884

Monday's actual  
 Peak: 38,478

POWER USAGE IN MEGAWATTS

► The biggest problem was gridlock. Intersections throughout Southern California snarled.

**POWER CRUNCH**

► Small alternative energy providers may be trying to get the state's attention by shutting down.

**TODAY: Rolling outages could resume, officials warn**

**Blackouts pounce again in California**

of prices for natural gas and other fuels.

In a few minutes, I shall discuss the problem of derivative contracts in the banking system. Here is an example from Germany (Figure 13). Deutsche Bank is the largest bank in Germany. On the left, you see the bank's capital, on the right are the bank's derivatives contracts. These derivatives are very complex, some of these contracts work automatically, and are not regulated or entered on the books. You can see that the slightest instability of these derivatives, can create a huge crisis for the bank.

**Sergei Glazyev:** Let me make sure this is clear. The red dot, the tiny one, is the capital of Deutsche Bank. The green circle is its assets, and the huge blue circle is the derivatives mentioned by Mr. Tennenbaum — all sorts of secondary securities, which are not even on the balance sheets, if I'm not mistaken.

**Tennenbaum:** Yes. Alongside the 50% col-

lapse in the Nasdaq, the German Nemax index of telecommunications, Internet, biotechnology, and other such firms, also fell very steeply, from 9,400 down to 1,400 points. In the United States, the total capitalization of New Economy companies fell from \$6 trillion to \$3 trillion. The shares of the biggest companies in the computer, Internet, and telecommunications sector lost more than half their value. Some of them have already gone bankrupt, such as the giant telecommunications firm Winstar, which filed bankruptcy in April. The so-called New Economy, the economy of the information revolution and the Internet, which was the basis of the “economic miracle” in the United States and elsewhere during the 1990s, is now collapsing.

Another good example is the major Canadian company Nortel, which lost \$19 billion just in the first quarter of this year. This is a record in the history of business: \$19 billion! There is now an unprecedented wave of corporate bond defaults, especially in the telecommunications sector. In just the first four months of this year, corporate defaults totalled \$33 billion, which is more than in all of 2000. Since March 2000, eighteen major telecommunications companies have defaulted on a total of \$18 billion. The American telecommunications crisis is also a threat to the banking sector. During the past two years, these companies have taken out more than \$300 billion in new loans from American banks.

The most dramatic case is that of the giant Dutch telecommunications firm, KPN, whose stock fell more than 60% in four days at the beginning of June. It is now quite possible that KPN will default on its 23 billion euro debt.

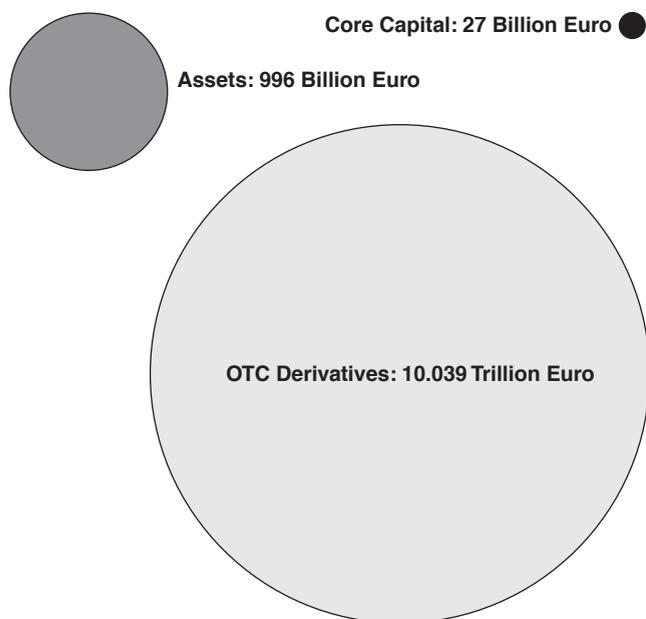
**Hyperinflationary Tendencies Have Appeared**

I already mentioned inflation. At first glance, one of the surprising aspects of the New Economy of the last ten years in the United States, is the fact that, despite the colossal expansion of monetary aggregates, created by the policy of supporting the financial bubble by pumping new liquidity into financial markets, there has been no corresponding increase in inflation. Actually, there was inflation, but the inflation was limited to an artificial increase in the prices of financial assets themselves. But, over the last 24 months, this situation has sharply changed. Strong inflationary and even hyperinflationary tendencies have appeared in connection with energy and food prices and other goods.

Recently a very cautious expert observer, the head of the Basel Bank for International Settlements (BIS), Andrew Cou-

FIGURE 13□

**Deutsche Bank Profile, Sept. 30, 2000**



per, spoke at the latest BIS meeting on June 11, expressing his deep concern about the financial and economic situation in the United States and the world. He said that the crisis in the United States would be prolonged and deep, and would have a great impact on the global economy. He warned of new financial earthquakes. Couper mentioned that for the first time since World War II, the total assets of American families decreased, while the debt of private households reached record highs in comparison to income. In view of the record U.S. trade deficit (which we estimate at \$600 billion) and the unprecedented monetary expansion of recent years, Couper raised the question of whether the United States would be able to continue to support the present level of the dollar, which he believes is considerably over-valued. He said that the devaluation of the dollar is inevitable, and that unless a gradual, controlled devaluation is carried out in the months ahead, there will be an uncontrolled collapse of the global monetary system.

Couper believes that the overall state of the world financial system is unstable, chiefly because the nominal growth of the American and other economies during the past decades has been accomplished only through a huge increase in the money supply and excessive inflation of nominal values on the stock markets. As a result, there is now a collapse on world stock markets; during the past 12 months, total world stock market capitalization has fallen by \$10 trillion. In other words,

a quantity of money, corresponding to one-third of world GDP, was wiped out.

At the same time, the global pyramid of national, corporate, and household debt continues to grow, and its growth is even accelerating. Couper drew attention to another aspect of the current situation, namely, the sharp rise in the use of “credit derivatives” by banks. In order to protect themselves against the growing risk of loan defaults and bad loans, they issue special derivatives contracts, which are mainly bought by the large insurance companies. Couper notes that the enormous accumulation of these contracts, which—like all derivatives—are off-balance-sheet, has already resulted in a situation where “nobody knows who carries which risks.”

It should be added, that the total volume of derivative contracts in the world has reached \$300 trillion. The threat of an explosive collapse of the derivatives pyramid is the equivalent, in financial relations, of a nuclear bomb. Once this process begins, no one can stop it.

These warnings, coming from a conservative representative of the international banking community such as the BIS’s Couper, should be taken seriously, but they do not describe the full reality of the threat of global economic catastrophe, which lies not only in the financial realm, but in the interaction between the creation and growth of the bubble of fictitious, speculative financial value, and the process of large-scale looting of the real, physical economy of most of the world. This interaction, which is illustrated by LaRouche’s “Triple Curve,” is poorly understood by most economics and financial experts, who don’t study physical economy.

**A Crisis of the Entire System**

The very fact of globalization, ultimately, shows that the current crisis is global in scale. It has gripped the dollar, the euro, the Japanese yen, and other currencies. It is a crisis of the entire global financial and economic system. The crisis involves the huge accumulation of indebtedness by almost all the countries in the world. With the possible exception of China and a few other nations, practically all countries in the world are in a serious economic and financial crisis. Africa is living a nightmare, there is a nightmare in South America, Europe faces great difficulties, and so forth.

This crisis was the result of a prolonged process, which built up over more than 30 years. It is profoundly structural in nature, irreversible, and cannot be solved by merely technical financial measures. Therefore, people who say that the American economy will soon overcome the consequences of the steep collapse on the so-called New Economy stock market, and then everything will go back to normal again, have failed to understand the problem. Such wrong evaluations, naturally, can be heard every day in the U.S. and other mass media.

There are constant attempts to deny the nightmarish

dimension of the world economic crisis. This is nothing new. Before, and even many months after the famous crash of the New York stock market in 1929, leading financial experts and politicians in the United States kept on talking about how there would be no depression, how everything would be normal. So, for example, the famous British economist John Maynard Keynes wrote in 1927: "We will not have any more crashes in our time." In 1928, the well-known industrialist Michael Forbes said: "There will be no interruption of our permanent prosperity." At the end of October 1929, after the sharp drop in stock prices, the chairman of Continental Illinois Bank of Chicago, Arthur Reynolds, assured investors: "This crash is not going to have much effect on business."

In an official forecast in December 1929, the U.S. Department of Labor proclaimed that 1930 would be "a splendid employment year." And, in June 1930, U.S. President Herbert Hoover triumphantly announced: "The depression is over." Only when Franklin Roosevelt became the new U.S. President in 1933, were emergency measures finally adopted for overcoming the crisis, in line with the real situation in the country and the world.

I think that this is a very important lesson for us today in the world and in Russia.

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Dmitri Lvov

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## Russia Must Initiate Solutions to the Crisis

**Sergei Glazyev:** I would like to ask Academician Dmitri Semyonovich Lvov to comment on the presentations that have been made. . . . Dmitri Semyonovich needs no introduction, being well known to us as the Academician-Secretary of the Division of Economics, of the Russian Academy of Sciences.

**Dmitri Lvov:** Dear colleagues, I would like to share with you some considerations, which directly concern the important, extremely urgent problem, which has been placed on the table at today's parliamentary hearings. I am concerned that this problem not be oversimplified. There exists a whole array of aspects that need to be brought to light, which reflect real processes and, especially, deep, causal relationships. Then, obviously, we should be able to draw better-grounded, objective conclusions about the situation that has to be dealt with.

It seems to me that, generally speaking, the process of globalization of the world economy is going forward. The leading world power, the United States, has sufficiently large material and financial potential, to today determine a large number of trends in world development. And this cannot be left out of account.

We can say many times over, that we observe crisis phenomena both in U.S. finances, and in the dollar-based world monetary system—and it is really the case. But it would be incorrect not to see also those colossal changes, which have occurred in United States itself. First of all, in the social sphere, and in the restructuring of the financial system of such a powerful country as the United States, without which the world cannot reckon today. . . .

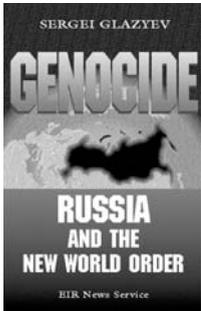
What disturbs me is, above all, the following circumstance. Today's world financial system is really quite unstable; it can be depicted as a sort of inverted financial pyramid, the base of which is the real sector of the economy, which accounts for an estimated approximately 12-14% of the world volume of financial resources, while the upper, wide part of this inverted pyramid, accounts for about 67-68% [of financial resources], the lion's share of which thus have nothing to do with the real sector, but rather involve financial derivatives, speculative operations, and so forth.

And we observe, on the one hand, the colossal successes of the post-industrial information-technology society, which provides unprecedented possibilities for the development of the productive forces and increased productivity: the Internet,

# GENOCIDE

## RUSSIA AND THE NEW WORLD ORDER

**Russia in the 1990s:** "The rate of annual population loss has been more than double the rate of loss during the period of Stalinist repression and mass famine in the first half of the 1930s . . . There has been nothing like this in the thousand-year history of Russia." —Sergei Glazyev



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**Economist Dr. Sergei Glazyev** was Minister of Foreign Economic Relations in Boris Yeltsin's first cabinet, and was the only member of the government to resign in protest of the abolition of Parliament in 1993.

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and so forth. And, on the other, we observe very unpleasant crisis phenomena in world development. They are manifested, first of all, in the fact that it presents no great difficulty today to move hundreds of billions of dollars from one point on the globe to another, in real time. Even with a weak dollar that lacks backing, this defines the possibility for a country which seemed to be growing, to be transformed instantaneously into a bankrupt nation—as starkly shown in the case of the Southeast Asian countries, about which the Prime Minister of Malaysia spoke. There are piles of such examples. South Korea, and others. What is happening?

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*The main and fundamental thing, from my point of view, is a root cause, which not one Western government, never mind our government, has ever addressed. That root cause, as I believe, is the undecided problem of property: first and foremost, the undecided problem of ownership of the natural-resource potential of our planet.*

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Here, you come to the flip side of the picture. These financial transfers are so rapid, that assets are given a value in the world, although they have no real economic, material content. To a certain degree our colleagues, Professors LaRouche and Tennenbaum, have spoken about this. To me, however, the problem generally appears more complex. For it is not only that we can say this is a bad system, or that this or that should have been done; it seems to me, that this does not get at the main, fundamental thing, to which the attention of our scientific community, the world community, and our lawmakers should have been drawn. This is what I should like to address.

### **A Contradiction of Society and Nature**

When we talk about the world economy, or the market economy, we ought to recognize that when we speak about the financial crisis, it is only an echo, a distant phenomenon, whereas there is a global contradiction, which is more fundamental, and determining. This is the contradiction between Man, or, to put it more correctly, Society, and Nature.

Look at what is happening in the world. In the last 12 years, there has been a sharp increase in major natural disasters. And it is very much to the point, as shown in the studies of our leading scientists, in particular Academician Osipov, that if we take three groups of countries—low-income coun-

tries, middle-income countries, and the countries of the so-called “Golden Billion”—all of them are forced to spend a large part of their revenues on dealing with the effects of these disasters. Most important is the enormous share of their revenues that the so-called “backward countries” have to spend for this purpose. Those poor countries are spending 20–22% of GDP, on average, to combat these disasters, while the countries of the Golden Billion, which are also subjected to the same natural disasters, with the same enormous consequences, spend proportionally five times less on dealing with them—only 4% of GDP, in the case of the United States.

This process is going on in many domains. Whereas the so-called “backward” countries quite recently had at least some hope of catching up with the countries of the Golden Billion, world development today shows, and this must be emphasized, that this was an illusion, and that the backward countries will now remain backward forever. And if we don’t change our way of doing things—I mean, Russia—then the same fate awaits us, no matter what mechanism we might apply.

In this connection I pose a second question. Is what is happening in Russia, our own national phenomenon? Did we, as follows from the speeches of some of our liberal democrats (a huge article by Mau just appeared on this), accomplish a revolution in the financial sector, which was a boon for the whole country? I answer that question as follows.

No, what occurred in Russia has to do with the United States of America, with Germany, with Europe, with Japan, just as much as it has to do with Russia. Today we are actually experiencing a *global crisis*, and if we are going to talk about finance, this is very correct, but it is only one part, and the real issue has not been discussed through to the end.

### **The Undecided Problem of Property**

The main and fundamental thing, from my point of view, is a root cause, which not one Western government, never mind our government, has ever addressed. That root cause, as I believe, is the undecided problem of property: first and foremost, the undecided problem of ownership of the natural-resource potential of our planet. Not a single country in the world is able to solve these global problems today. The private ownership of what, broadly speaking, was not made by human hands, and is not the result of capital, business, or financial risks, should belong to all.

Look at the classical example, which is, of course, Russia. Of Russia’s total undistributed income, I emphasize that business accounts for no more than 20%. That is, capital, its risks, our banks, and so forth, account for only one-fifth, and even that is an overstatement. Labor’s portion is 5%. But two-thirds of the income has nothing to do with business or labor. This is what stands out so very clearly in Russia. From God, Russia has its natural resources, its territory, its natural gas, oil, and so forth. Are these not material assets, which should be reflected in our financial system?

I pose a third question. On whose balance sheet, today, do we find that which produces two-thirds of the country's national wealth? The answer is obvious: Nobody's! There are declarations, there are words; but are our petroleum companies operating on thin air? Why don't we do the most elementary things? What about an appraisal of our natural wealth, which I am working on? Or is it free of charge? And what about Gazprom, which is 37% state-owned? Are its natural gas deposits, its land allotments, its groups A, B, and C, all free of charge? Whose balance sheet are they on? Nobody's.

But then we arrive at an understanding that the state, as the expression of society, has pulled out of the economy, giving away for free, what resulted from neither business or capital.

Thus, what financial system are we talking about? Here you have another phenomenon, the next consequence, if you will. Suddenly it emerges, that our magnates, as they are now called, have become very active. "Hey, guys, let's reform our currency controls," they say. "Let's get rid of them. Seventy-five percent [mandatory conversion of foreign currency export earnings into rubles] is no good." Why is it no good? "Because we don't know what to do with the money. Four hundred and thirty-eight billion rubles, backed by the foreign currency holdings of the Central Bank. What are we supposed to do?" They've even introduced the unseemly term, "sterilization."

"Make it 50%, or even more, maybe 52%, and we'll put more in our bank accounts and build up bank reserves." The government and the [Central] Bank don't know what to do with this money! There's a pile of money, but it doesn't go into the real sector. Never has there been so much money in the economy.

What is to be done, now? There are no capital markets. How could one be built, if there is no normal lending? The circulation of commercial paper is disrupted. What should we do? And, there follows a weighty pause.

If we are going to talk about the crisis, and we have assembled in this legislative institution, with its lofty calling, we must solve *these* questions. And for me the solution—this is the third part of what I would like to say—is obvious enough.

I consider it very important for Russia, while it still has real capabilities to do so, to act as the initiator of a global resolution of the crisis. But this means that the natural resources, water, airspace, main lines of transport, which are all public property and belong to all, and the rental income, two-thirds of which today is transferred abroad through offshore channels, and so forth, are real and must become a real source for the reorganization of our financial and credit system.

## What Is Fundamental

We should think about what is fundamental here. Look at the statistics. Haven't you noticed one crucial fact, which cannot fail to disturb especially our lawmakers? Look at how our oilmen go to the President and say, "We're living poorly."

Really, if we follow their logic, it would be better to shut down our whole oil industry and get oil from the Arab emirates. The oil industry is already at zero-growth, or close to it, although its profitability is very high.

Or, take natural gas. We have 32 or 35 billion cubic meters. But there is no gas in the country. The Turkmen! Now Turkmenistan has to come to the rescue. What is this!? Just look at every other sector. The ruble is getting stronger, that's clear. But everything is sharply deteriorating. Our competitiveness is in decline, the share of imported goods in the economy is rising.

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*What kind of country is this going to be? The fate of a raw-materials appendage has been determined for us, but in that event, we are all done for.*

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What kind of country is this going to be? The fate of a raw-materials appendage has been determined for us, but in that event, we are all done for. In that event, it has to be recognized and said, that all of these slogans about social reform, housing and utilities reform, health-care reform, are all just raving. They don't have anything to do with us.

Or, we actually build our economy on a scientific basis. But in that case, there has to be a different system. A different system of banking relations, a different financial and credit system, and so forth. If we look at things this way, then in order to see correctly, we have to do one thing—make our calculations, like the ones we made in the good old days on the basis of so-called optimal management models.

What should we do? Market, no market—that is merely the question of distribution. But what we have to do at the outset, is to determine Russia's net income in world prices. That is what we have to do. And then we shall see a large number of loss-making sectors, and non-competitive products. But at the same time, in 1999 Russia had net revenues of around \$85-100 billion, of which two-thirds, as I said, was rental income. Where is that rent? It was appropriated by 7% of the oligarchs, who manage it and now also give advice to the President, on how it is necessary to eliminate currency controls.

There's your reserve, in plain sight. What do we have to do to get it? We don't need any redistribution, as the President correctly emphasized, but rather just to take a simple action: Put it on the public balance sheet, put it on the books of the state. Say to the state, "Wake up, put all the natural resources on your books!" Then, if today I ("I" being the state) own 5% of some oil company, tomorrow it will be 98%.

Issue shares, into free circulation in a free market! Bring

those possibilities to life! You won't have criminals; you won't need police! Set up the vertical linkage, and everything will flow into the Treasury, which will strengthen our ruble, and industry will develop. This pathway is entirely realistic, and we should think about, and prepare the relevant decisions. Any other way, I simply cannot understand. Thank you.

*For Mr. LaRouche's response to Academician Lvov, see p. 56.*

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## Datuk Yahya Baba

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# Malaysia's Battle With the IMF System

**Sergei Glazyev:** We have as our guest the Ambassador of Malaysia, Datuk Yahya Baba, who is well known not only as the representative of this friendly country, but also as a prominent scholar, a specialist who has devoted much attention to the financial crisis. I would like to ask him to share his experience, and perhaps to tell us about Malaysia's experience in stabilizing a financial system under conditions of global crisis.

**Datuk Yahya Baba:** Good morning to everyone. Your excellency, Mr. Glazyev, dear ladies and gentlemen. It is indeed a privilege for me to be here, particularly with world experts on issues, which are alive for all of us. I have indeed benefitted a lot, from listening to the various experts, and the various theories on economic and financial systems. It is a privilege for me to be part of this process, and to share with you some of our own experiences in this field. I am very pleased, indeed, to hear from the experts—particularly, predicting the end of the road for the IMF. And also, the need for a new global financial structure.

For decades, these institutions of Bretton Woods—the IMF, the World Bank—have been giving us advice, and I use the word “advice” very carefully, because normally it is in quotation marks, with lots of meanings, which sometimes we failed to understand. This reminds me of our history in the Fifteenth and Sixteenth Centuries, and from then on, when we began to know other parts of the world—and what advice means. When we started to have economic, cultural, and other relationships, that “advice” also meant political advice.

As I said, that advice did not come very cheaply. We had to pay fairly heavily on that front. In the 1997 financial crisis that hit Asia first, and one year later, unfortunately, spread to this part of the world, for a year or so we listened to the advice,

we followed the advice. In a sense, that advice was: Squeeze your credit facilities, cut off your government financing, including for the lives of the people. Withdraw the subsidies that you have been giving to your people, and bankrupt the companies that have been supporting the economy. And a lot of other advice was given to us.

Dutifully, being good listeners, we followed in this way for a year. And what did we see? We saw—But, I might [first] say, that for a decade the Malaysian economy had been growing at an average of 9 or 10%. Our industries were booming. Our economy was booming. Our shares went up, our money was very much sought after, not only within our country, but all over. We were very proud to see that we could change our money in London, in Paris, in New York, and all the other financial capitals.

But with the advice that we received, the companies could not survive. They just had to submit to the new situation. Their credit-worthiness was gone. They couldn't move. And, therefore, the workers were forced to leave, and the whole country was sick. It was even sicker than before. When the country is sick, it is not only confined to the social, economic, and cultural spheres, but even more so [it affects] the political.

I have been here for six years, now, and I see a somewhat similar situation.

### How Malaysia Defended Itself

Don't get me wrong. I'm not against the market economy. I'm not against political pluralism. We, too, commit ourselves to “globalization,” which is the catchword of the day. But, having experienced this for a year, we decided, from the first of September 1998, to introduce selective capital controls, which meant that our money, which was freely traded and freely available the world over, had to be brought back, within a very specific period of four months. [It meant] that our money, from the first of September, would not be legal tender outside of Malaysia.

“Aha! You're inviting a lot of black market [activity], in taking money abroad. Your economy will collapse further—because there are a lot of people, who are ‘tuned in’ to what is best for themselves.”

We fixed our exchange rate at \$1 to 3.8 Malaysian ringgit. I should say that, before the crisis we had 2.5 ringgit to the dollar for a very long time, but during the crisis, the rate went up to 4.8 ringgit to \$1, and your good friend [George] Soros said several times, “We'll see you at 5!” Meaning, they would like to see our ringgit go [to the level of] \$1 for 5 ringgit. We saw the sign on the wall, that we would have to deny him this.

We put it at 1:3.8, and it has remained so for the last two and a half years. This is beneficial for us, beneficial for our friends, for exporters and importers, and beneficial for everybody, including our industry.

The second thing we did, is to call in our shares, which were freely traded in other places, particularly in our neigh-

boring countries. Our shares are tradeable only within our country. They all had to be registered immediately. There is no short-selling, if you know what that means.

I share the view, that the international financial system is aging. It needs a major reform, in order to meet the current need for the good of all, and to serve the interests of all. Globalization is a very good word, a very good concept, and we all share it. But, it is good only if all of us benefit from it. We believe in the market economy. Our economy is largely based on the market, but we also have — like you, Russia — in some sectors, the government play a role.

Malaysia has gone through four decades of independence, trying to improve our economic situation, the economic situation for the whole population. Unfortunately, we are still in that process, which requires the government to help the less fortunate sectors of the population, requiring a different kind of medicine, a different kind of strategy, a different kind of policy. And only with that, can we ensure that our people — the poor sectors of the population — will benefit from the richness of our country.

### **‘The Market’ Is Not Enough**

The idea that the market will correct itself, that the market would have the power, the market would have the will, the market would have not only the opportunity but also the possibility to ensure that everybody benefits, is based on a very creaky premise. To assume that the market has a conscience, we cannot accept. The market has no conscience. The market is premised on making profits, and, in fact, it has to make profits at the expense of somebody else. Maybe it’s not intended, but they have no forms of pushing [down] their motivation for making profit. We have seen for ourselves, a couple of months ago, how the market pushed the electricity problem in California. Who can believe, that in America we would have to have emergency rule? But they did, because the market had pushed itself to the very limit, of making profits.

We believe, that the market must be tempered with conscience, and that conscience must come from somewhere other than the market itself.

I think we have heard presentations from the experts. In the policy of the financial system, what is very apparent, is the laws of the jungle. Not all of us, as participants in the process of the market economy and the financial system, share similar possibilities of knowing what is happening. There is a lack of transparency, but certain rules and regulations are known, and certain practices are known to very, very few, indeed. But, we must have extra tentacles, extra ways and efforts — and not all of us have the possibility, to know what is happening in the financial world.

And therefore, what we think is required, is a common effort, a common effort of all, involving various processes, to change the system for the common good. I think, that if there

is a will, there is always a way. Where there’s a will, there’s always a way.

I am very happy to see here today, many Russian experts in the various fields. Today, we have many experts in the field of finance, and the field of economy. Of course, we are privileged to hear experts from the rest of the world. By the end of the day, it is our own experts, who have the role and the responsibility to give their best efforts — the result of their best efforts, their analysis, their forecasts — and, their recommendations for the benefit of each country concerned.

When we say “the best for the country concerned,” I am confident that when all, almost 200 countries in the world, are fighting for their own individual interests, that there will emerge a *common* interest, that will ensure that *all* will benefit. It is in the best interest of everybody, that they have their stake in the system. For so long as the system benefits only a few, the majority will fight. Informed they must be.

What I’m saying is, let’s work together. Let us find a way out together, and let us make sure of that very best principle of a “win-win” situation; so that there is no loser, in the new system.

I thank you for giving me this opportunity to speak.

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Sergei Yegorov

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## **Challenges Confronting Russia’s Banking System**

*Mr. Yegorov is the president of the Association of Russian Banks. The text has been translated from Russian, and sub-heads have been added.*

First of all, I should like to say that the Association of Russian Banks considers very timely the idea of the Council of the State Duma to convene these hearings, proposed by the Committee on Economic Policy and Entrepreneurship, on the topic we are now discussing. August 1998 already confirmed for us, what a negative impact financial destabilization can have on the national economy — state finances, corporate finances, and the banks.

Nearly half the banks in the country ceased to exist. The devaluation of the ruble slashed the value of bank capital. Many of them became insolvent, and lost the confidence of their corporate clients and the population. I believe there is no need to recall the consequences of the financial crisis. . . . The main thing, today, is not only to draw lessons from what happened, which of course must be done, but also to under-

stand how and when the destabilization of the world financial system may have a negative impact on economic growth rates in Russia, which have still not solidly taken hold, and on the domestic banking system as it grows stronger.

We have gotten used to thinking that the August 1998 crisis was basically caused by mistakes in economic and financial policy. Without question, there were such mistakes. . . . But, now we should say forthrightly that there was also another cause of that crisis. First of all, it should be noted that the leadership of the government and the Central Bank evidently underestimated not only the role in the crisis, of the instability of the national financial and banking sector, the overvalued ruble, and the current accounts deficit, but also the possibility of this crisis being imported from abroad, under conditions of increased globalization.

The powerful force of the new class of international investors, which has emerged in the global economy, was not duly realized in time. Able to act simultaneously in several emerging markets, if they experienced losses in one market, they would sell assets on another, destabilizing the situation in the country they were ruining. The Ambassador of Malaysia spoke about this very well. . . .

We remember, how the Asian wave of the crisis was accompanied by the plunge of currency exchange rates and stock market indexes, and by the bankruptcy of banks in various countries. In that crisis, the so-called contagion effect was in full operation. It spread from one country to another, even if there were not close economic ties between them. This is a very important point. It cannot be said, I think, that there will be a crisis of the world financial system tomorrow. But, nevertheless, serious preconditions have already been formed for such an eventuality, as the preceding speakers discussed. . . .

We see the task as being to minimize the risks from possible future crises, to limit their depth and range of effect, and to reduce the financial costs of getting out of the crises, in case they affect Russia—reducing the time it takes to overcome them, and to defend the most vulnerable social groups of the population. I think we need to do this immediately in Russia.

### **Measures for National Self-Defense**

But, a crisis can also arise due to mistakes made on the national level, if a timely evaluation of the role of destabilizing factors in the global financial system is not made. In order to avoid this, we believe that it is important to provide a kind of self-defense for the national market, using a macroeconomic policy that makes it possible to prevent the devaluation of the ruble, and thus to avoid the real devaluation of bank and corporate capital.

Secondly, correct decisions have to be made on the convertibility of the ruble. Some of our specialists, when they talk about measures to ensure the development of the Russian economy, are currently proposing to introduce a fixed ex-

change rate, as one preventive measure. . . . This policy would have serious shortcomings, in our view. It would make it impossible for the Central Bank to function as an effective lender of last resort. A floating ruble exchange rate, in contrast, allows the combination of a less strict regime, with more flexibility, thus reducing the risk of an abrupt devaluation of the ruble. This enables the Central Bank to provide liquidity in the event of a crisis. Therefore, as we define measures to ensure the sustained growth of the Russian economy, it seems very important to preserve the floating exchange rate. . . .

We consider it appropriate to have a more balanced approach to the question of relaxing currency controls, as Academician Lvov discussed. There is no question, but that reform is needed in this area, since Russia is becoming ever more noticeably a component of the world economy and of global financial markets.

It seems to us that, attractive as many of the various other arguments may be, there is one indisputable argument, proving the need to prevent a serious collapse of the ruble. That argument is that it is simply impossible to ensure sustained growth, without the replacement and modernization of plant and equipment.

Our domestic machine-building sector has lost much of its capacity during these past years, and is unable to supply other sectors of the economy in the period immediately ahead, including the fuel and energy sector, whose output is the main component of Russian exports, and consequently of the ability to earn convertible currency and use it to purchase modern equipment. This, in turn, means that Russian importers benefit from a less expensive dollar—if, of course, that corresponds to the realities of our domestic economy. A stable ruble is even more important for the majority of Russia's population, with regard to the supply of food, medicines, and so forth on the domestic consumer market.

There are areas of currency regulation, however, which of course do need to be liberalized. In our opinion, the deregulation, for example, of procedures for foreign currency operations by which residents can attract foreign capital, needs to be accelerated. . . . We also consider it important for foreign capital to be able to enter and leave Russia freely, so that we may count on being able to attract it into Russia.

In charting ways to ensure the development of the Russian economy under conditions of destabilization of the world financial system, we cannot limit ourselves to domestic measures. It is important for Russia to take an active part in strengthening the cooperation among the regulatory agencies of countries belonging to the world financial community. This means to introduce international principles of regulatory supervision of the banking system, a process which essentially has already begun.

First among the immediate tasks, we think, is to restore the confidence of investors in countries, which have experienced a crisis. Second, to reduce investors' possible losses,

in the event of new crises. Third, to create a financial system, which would bring into play all the advantages of the global markets and the mobility of capital, while preventing macro-economic and financial unbalances from arising on the national level.

International financial institutions, above all the IMF and the World Bank, need to be reformed. In recent years, we at the Association of Russian Banks have had to have direct, close dealings with them. It should be recognized that the IMF was unprepared to take decisive measures, to prevent the destructive nature of the financial crisis in Russia and other transitional-economy countries, from the standpoint of mitigating its negative impact on the economy; rather, it recommended macroeconomic crisis measures, primarily sharp interest-rate hikes and budget-cutting, while denying the need for urgent measures to stem capital flight from emerging-market countries, or for talks with private creditors and investors on debt restructuring. Its activity was excessively politicized and ideological. The Malaysian Ambassador spoke about this very eloquently. . . .

We can now state that our banking system is emerging from the 1998 crisis, but some questions of principle remain to be solved, not only on the level of the banks, but also on the level of the state. First of all, the question of bank capitalization. If we measure it by international standards, our entire banking system is currently about the size of one major European bank. Of course, this is inadequate for a country like Russia. Moreover, the necessity of enhancing the banking system and bank capital for economic development tells us that the banking system needs to be more powerful.

In this connection, we need to look at sources of capitalization. The banks themselves, within the capabilities of their owners, are more or less actively working to build up their capital, but these capabilities are limited. Moreover, approximately 75% of all bank profits get paid to the federal budget, in the form of various taxes. Therefore, in recent years we have worked for a level of taxation of the banks, which corresponds to world standards. Banks should not pay higher taxes than other economic entities. For the past ten years, our banks have been paying excessively high taxes. . . .

## The Role of the State

We believe that strengthening the banking system, means that we have to change the economic environment in which the banks function. I mean the real sector of the economy, above all. It is not prepared to accept credits, which the banking system might extend. Take this figure: 40% of our state-managed industrial firms are loss-making. What reasonable Eastern, Western, or Southern banker would lend money to such companies? In this connection, we share the view that the role of the state in regulating the economy should be increased.

Talking about the economic environment, I have in mind, first and foremost, the need for the state, for the government to create a well-considered state industrial policy. We don't have one. We don't know which sectors are going to develop. Establish this, and it will provide some certainty, including for the banks, even under conditions where not all the financial indicators of industrial firms are, shall we say, ideal; but, a good perspective on the development of a given sector will make it possible for the banks to look at those firms in a different way.

We think that one of the greatest problems in Russia during the past ten years, but especially the last few, is the creation of long-term credit resources. We don't have them yet. In this connection, we are looking at the need to mobilize the monetary savings of the population. International experience shows that any country develops chiefly on the basis of internal resources, and the savings of the population. Our population has big savings, but they take no part in economic turnover. Incentives need to be created, including the strengthening of the banking system, for the population's savings to enter more into circulation.

Once again, here in the halls of the State Duma, I should like to say that we urgently need to pass a law on deposit guarantees. This will make it possible to solve many problems, such as confidence in the banking system, in a completely different way. And, I think that the definition of a firm, state policy on the development of Russia's banking system must play a great role in this. . . .

Finally, I would like to draw your attention to the creation of a normal stock market. At present, you can count on the fingers of one hand, the companies traded on the stock exchanges. And what Academician Lvov said about putting the great wealth of the state on the books, and the state's becoming active in the market, in the stock market, is absolutely correct. Then, we'll get a second wind, and be able to rely not only on Gazprom and another five or so companies, as I said, but we'll have something corresponding to reality, and our stock market will start to function.

I would like to say again, Sergei Yuryevich [Glazyev], that you did the right thing in putting this question on the table for broad discussion. Thank you.

*At this stage of the session, the serious and concentrated discussion was interrupted by the clown-like appearance of Vladimir Zhirinovsky. Exploiting his position as Vice-Speaker of the Duma, to get access to the podium, Zhirinovsky intervened with some confused remarks about the world situation and how Russia should strengthen its economy. Then, he abruptly launched into an attack on women, demanding that women should be banned from positions as judges, economists, doctors, or even cooks! Zhirinovsky got what he deserved, however, when the famous economist and former Duma member Tatyana Koryagina took the floor (see page 54).*

## Cooperative Solutions To the Global Crisis

**Sergei Glazyev:** We have Sen. Ivo Tarolli of Italy as our guest. I would like to thank him for finding time to come to Moscow, and to accept our invitation to take part in these parliamentary hearings, which are on a topic urgent not only for Russia, but for the entire world.

**Sen. Ivo Tarolli:** Good morning! I wish to extend my warmest thanks to Chairman Glazyev for organizing this seminar, which is in my opinion of great political and economic importance. The topic of the stability of the world's financial system is especially relevant today. While the world's GDP is estimated at \$38-40 trillion, and only part of that accounts for the real economy, the yearly total flow of capital amounts to over \$400 trillion. The world GDP/financial economy ratio is one to ten. It is clear that financial instability undermines the stability of the entire economic system. Besides, I wish to stress that the effects and consequences of the so-called "regional crises"—the crises in Southeast Asia, in Latin America, in your country, etc.—are not confined to those regions alone: Because of the huge flows involved, they have consequences on the global financial system as well. In this connection, I wish to make a few remarks:

1. According to observers, there are two reasons or factors which have influenced and transformed the global market: a) financial liberalization, which has caused the free movement of capital and the creation of competing groups and financial sectors; b) technological and financial innovations. If globalization is to bring benefits to all countries and peoples, governmental and parliamentary institutions, as well as the World Trade Organization and all international economic and financial bodies must be so organized as to promote the well-being of mankind and protect its cultural diversity. This requires an integrated and internationally agreed action favoring: a) the opening of developing markets; b) debt reduction; c) more substantial aid to development; d) wider access to technologies; e) a new international cooperation model, in which governmental initiatives involve a significant and direct participation of private parties, banks, and volunteer associations—including NGOs, the more organized among such associations.

2. The World Trade Organization should become an engine that promotes growth for all, in particular by harmonizing "regional" policies and supporting initiatives aimed at reducing developing countries' state of dependence. The so-called "Seattle movement" posed a number of questions that

need to find an answer. How do we prevent globalization from limiting the sovereignty of weaker countries? How can the principle of democracy be reconciled with the principle of free trade? How do we counter the negative effects of globalization? Is it possible to protect "local" interests and avoid that a single culture be imposed on the entire planet? The answers to these questions are to be found in the following factors: a) a better coordination of governments; b) a greater involvement of parliaments, which must be responsible for "guiding" governmental action rather than confining themselves to "ratifying" decisions; c) more comprehensive and detailed information intended to raise people's awareness; d) identification of new international fora, or promotion of a more active role for existing ones, so that they launch initiatives and proposals; e) finally, in his latest annual report, Banca d'Italia Governor [Antonio] Fazio stressed that negotiations in the WTO context should be resumed, taking into account the problems of developing countries, safeguarding the environment and local culture, and liberalizing trade—primarily for food and textiles.

3. International development cooperation must play a leading role in this context. I believe Italy and all major industrialized countries should take the following steps: a) strengthen their management structure and their capabilities in planning aid initiatives; b) increase the level of development aid with respect to the GDP in order to reach a 0.24% average over the next three years; c) revise their objectives and criteria relating to development aid programs; d) involve not just governments, but also private subjects, banks, volunteer associations, and NGOs; e) devote greater attention to the effectiveness of projects and supplies. As regards lending policies related to developing countries, a greater synergy is needed between governmental action and initiatives by private subjects and banks. Following the example of Japan (which grants 75% of its loans to Asian countries), the U.S. (which allocates 50% to Latin America), and Germany (which allocates over 40% to Eastern Europe), Italy—and Europe as a whole—should allocate development aid in a more effective manner.

4. The debt of developing countries is a problem which cannot be addressed solely in terms of human and Christian solidarity: it is an issue of social justice and economic stability.

For the globalization of the economy to be an opportunity for all, an instrument of inclusion and freedom for all peoples, and not a way to isolation and poverty, certain rules must be established.

Rules are not meant to bridle the markets or hold back the economy, but rather to stabilize the latter and build a future that is socially sustainable.

At present, however, it is not so. Africa, a continent with 750 million people, has been virtually excluded from the benefits of globalization, and that is neither fair nor desirable.

Latin America was charged \$140 billion (280-300,000 billion liras) in 1998 on account of debt service alone—a huge

burden to bear.

According to Mr. [Michel] Camdessus, former IMF director, poverty is the biggest world problem and is “morally offensive, costly and socially dangerous, besides being a risk factor for international financial markets.”

Rich countries should therefore take action: They should realize that helping poorer countries makes everyone richer.

It’s a long way to go, but we do not have a desert ahead of us. We represent one of the most advanced parliamentary realities in the world.

### **The Italian Parliament’s Law on Debt**

Last July, the Italian Parliament passed a law establishing the following: 1) total or partial cancelling, over a three-year period, of credits [owed] toward Italy, for a total amount of \$6 billion; 2) the above measure will be extended to the 62 highly indebted countries receiving easy-term loans from the International Development Association; 3) partial or total cancelling of debt may be also extended to countries affected by natural catastrophes or huge humanitarian crises; 4) for the above measures to be applied, recipient countries must commit to: a) respect human rights and fundamental freedoms; b) renounce war as a means to settle controversies; c) pursue welfare and full social and human development, promote the reduction of poverty; 5) Article 7 of the above law engages the Italian government to address the International Court of Justice to obtain an opinion on the “consistency between international norms ruling developing countries’ foreign debt and the general principles of the law and of human and peoples’ rights.”

### **A Proposal To Cancel Debt and Erase Poverty**

We are convinced that the above measure, important and useful as it is, is not enough. Cancelling the debt does not mean erasing poverty.

For this reason, we proposed a new bill — already passed unanimously by the Foreign Affairs Committee of the Italian Senate — which complements the existing law, in that it identifies a model and a method which may concretely help free developing countries from poverty.

The Italian government approved the proposed legislation and submitted it at the [Group of Eight] Okinawa Summit of July 2000.

The bill, introduced by the Centro Cristiano Democratico (CCD), contains innovative proposals; it has gained approval at domestic and international level for the following reasons: 1) it does not engage governments alone: it involves civil society as well; 2) it identifies a mechanism designed to make new financial resources available for developing countries; 3) it involves internationally recognized NGOs in the management of resources; 4) it establishes priorities for the assignment of resources.

The basic idea is to create specific Funds in developing countries which would be based on local currencies: they would receive the financial resources to be used to build

schools, hospitals, and housing, or to extend micro-credit to the poorer people — thus enabling them to start the small businesses that account for a fundamental economic activity in those countries — or, finally, to promote projects concerning food and agriculture or the supply of drinking water.

To avoid such phenomena as illicit profits, the improper use of funds, corruption or colonization, Funds may be managed in each country by a joint committee composed of two people appointed by the local government, two people appointed by the Italian government, and one person appointed by the UN. They will have to be selected among those designated by local, Italian or UN-recognized NGOs operating in the areas concerned.

Considering the lack of accurate and updated data and information on the issue, an observatory might be established at the Presidency of the Council of Ministers for the detection and monitoring of the Italian situation concerning public and private credit with respect to poor and developing countries. This would also provide information on the initiatives taken by the international bodies active in that sector.

In order to find the resources necessary to cancel debts or reduce interest — which would allow indebted countries to pay their debt — the Italian government is going to support the application, at least at the European level, of a tax on all currency-based international transactions, which are currently tax free; it will be a very small amount, comparable to bank commissions applied on all currency-based operations.

Given the current huge expansion of financial transactions, the above tax may help collect remarkable resources. If a 0.05% tax were applied all over the world, it would be possible to collect a sum exceeding half of all interest on developing countries’ foreign debt, currently amounting to over \$250 billion (500,000 billion liras).

The proceeds from the application of the tax concerned will be used as follows: a) one-third will be used to create an insurance fund against any possible insolvency of financial institutions, as a protection with regard to the reliability of international capital markets; b) two-thirds will be used to support the above-mentioned development fund.

If applied as suggested (one part to establish an insurance fund in favor of a free and safe capital movement and one part to promote development initiatives, which are the only measures that can ensure a safer debt repayment), without disrupting free market rules, the tax can contribute to poor countries’ development and help them strengthen their ability to repay debts.

### **A New Bretton Woods**

Back to the issue of governing the globalization of financial markets, I presented a motion last March which engages the government: to promote concrete measures designed to help stabilize the international monetary system and ensure an equal distribution of benefits, which can make the world economy sound and fair, especially for developing countries; to propose, at the international level, the organization of a

new conference with heads of state and government, similar to the Bretton Woods conference of 1944, with a view to creating a new international monetary system and taking the measures necessary to eliminate the mechanisms causing financial instability and adopt programs for the relaunching of the real economy; to submit this proposal to the European Parliament in Strasbourg, to the European Commission and to all EU institutions responsible for European economic policies, as well as to individual European governments through bilateral agreements; to support similar initiatives promoted by other governments and parliaments, starting with those of developing countries.

I thank you very much, again, for your kind invitation and for your attention.

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Andrei Kobyakov

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## World System More Overheated Than in 1929

*Dr. Kobyakov is an economist at Moscow State University and columnist for Ekspert magazine. Translated from Russian.*

It so happens that my presentation will develop some ideas in parallel to what Mr. Tennenbaum had to say, although we certainly did not consult beforehand. Probably we both saw the same logic in the events that are unfolding, and therefore some aspects of my speech and his will resonate together.

First of all, I should like to draw your attention to the greatly increased frequency of financial crises, during the past one-and-a-half to two decades. Moreover, their ripples have been felt planet-wide, which is testimony to globalization— to its flip side, the negative side.

It should be noted, however, that during this period the destabilizing impulses came chiefly from the periphery of the world financial system. For that reason, it seems to me, this system has not yet experienced the kind of really strong crisis that can happen. The next crisis may turn out to be significantly more destructive in its scope than all prior crises, because its epicenter may be at what would seem to be the bulwark of that financial system: the United States of America, and the U.S. markets of what used to be called fictitious capital. Actually, now, perhaps, that term can re-acquire its original meaning, freed of ideological dogmas.

This series of crises, and their growing frequency, is no accident. I remind you that the Chairman of the Federal Reserve System, Alan Greenspan, is of the opinion— although he may not have repeated it in quite some time—that the

world is experiencing waves of a single, big crisis of the world financial system. He identified the Mexico crisis of 1994-95 as the first wave, and considered the 1997-98 Asia crisis, which then hit Russia, to be the second wave. He himself forecast that a third crisis was just over the horizon, or rather a third wave of this crisis, which would be more destructive than the preceding ones. And here you have it, with a kind of cruel irony: The mechanism of such a crisis may already have been sprung. There are some indications, that its catalyst was the crash on the American stock market.

In the 1990s, the U.S. economy gave rise to a number of interconnected excesses, each of them fraught with the danger of worldwide tremors. The first excess, which has burst like a soap bubble, or like an abscess, was the stock market. You have already heard figures today, on how the Nasdaq has fallen 55% on the year. At its lowest point so far, in March of this year, it had fallen almost 65% from its high, after which it rose a little bit, but not dramatically. I think there are grounds to say that we shall see this market move downwards again.

### Causes of the Stock Market Crash

In order to understand the causes of this crash, one must first sort out the causes for the stock market boom in the first place. Because the U.S. stock market boom, by all conceivable parameters, surpasses in scope the boom that took place in the 1920s, which preceded the famous crash of the New York stock market in 1929 and the subsequent Great Depression. This means such parameters, as the ratios of market capitalization to GDP, to a company's net earnings, to the net value of its assets, and so forth. By all these parameters, there is nothing analogous to today's market, in the world system. It is more overheated than in 1929.

Take one popular parameter, the price-earnings ratio, for the U.S. stock market as a whole. This is the ratio of the price of a share to the net earnings per share. Just before the collapse that began last year, this parameter was at 30-35, a level not reached even in 1929.

Comparing paid-out dividends on shares, to their price, the prices exceeded dividends 93 times over, which means that the dividend yields had fallen to 1%, sometimes even less. This, too, shows a previously unthinkable degree of overheating. It is not clear when the ownership of securities became essentially a speculative activity, but it is clear that to make fairly risky investments, if it were just for the purpose of obtaining a 1% yield as dividends, is nonsensical.

And if we take these parameters, for the companies most typical of the modern U.S. economic system, the companies of the so-called New Economy, which are supposed to be the vanguard of the U.S. economy, here the overvaluation is nothing short of a joke. The figures are astronomical. For example, the P/E ratio for the well-known Internet provider Yahoo! was more than 1,200. Think about this. The significance of this figure can be understood, if we imagine that there's an investor who wants to purchase that entire company. It means that he will pay a price for it, which he can

recoup after 1,200 years. This is a totally absurd proposition. Especially since, with the Internet companies, the “earnings” part of the P/E ratio was not current profits, but the company’s *projected* earnings.

It is clear why these companies have now experienced the steepest crash. . . . Just as rapidly as these share price quotes rose, they are now falling with the same velocity, only really with an even greater velocity, because the fall is always steeper than the rise was.

I shall not repeat the estimates [presented by Tennenbaum] of how much money has been burned up. Some people consider that since it was fictitious, merely paper capital, and wasn’t real, there is nothing to worry about, and nothing will happen in the economy because of this. In reality, this is not exactly the case. As was mentioned, 50% of American families own these shares, and if we take things like certain institutions, which began to invest in these shares and got in up to their ears, then we can say that pension funds and insurance companies are suffering from this collapse. Therefore, it has a real impact on people’s welfare. . . .

Like Mr. Tennenbaum, I am convinced that the reason [for the meteoric rise of share prices] is to be found in the credit-pumping, which became the credo of American national economic policy during the 1990s, which, at first glance, would seem to fundamentally distinguish it from the policy of the 1980s, the notorious Reaganomics, which pulled the economy out of its preceding crisis by increasing budget spending. Now, funds were mobilized by the issue of long-term Treasury bonds with very high yields, as high as 14% annual return, which led to an increase in the national debt at the beginning of the 1990s—to over \$5.5 trillion.

Despite this apparent distinction of the economic boom of the 1990s, the mechanism for creating the boom, involving low interest rates and reliance on private initiative, did not really shift the United States away from a debt economy, because public sector indebtedness was merely replaced by private sector indebtedness. The availability of cheap credit led to an unprecedented growth of debt in the country. At the end of the 1980s, some economists were horrified that the total debt of all sectors of the U.S. economy had exceeded \$11 trillion, saying that it could not go any higher. Today the Federal debt alone, without the [private] financial sector, has surpassed \$15 trillion, while the total indebtedness of all sectors of the U.S. economy is more than \$26 trillion.

Mr. Tennenbaum called this the domestic debt, but—if I might correct him—actually it is the total debt, and a rather substantial portion of that debt is in the hands of foreign citizens. If we take corporate bonds, for example, 25% of all corporate securities are held by foreign investors. If we take the government debt, it’s more than 40%. If we take stock shares, the level fluctuates between 5 and 10%. So, this is the total debt, and a very substantial part of it is held by foreigners, which ought to be a matter of some concern.

In the past few years, the analytical and banking community did become concerned about this, and started to sound

the alarm. I remember when the Bank Paribas said in one of its analytical reports, that investors would only want to “buy America,” if they could be compensated in some way, for the rising risk of investing in that country. This either meant a devaluation of the dollar, or it was a suggestion that the return on those investments ought to be higher—referring to the interest-rate policy. Unfortunately, neither such thing has happened to date, which only tells us that this strain, this disproportion, is intensifying, and that the crisis, which so far is proceeding in a sort of hidden or latent form, may burst to the surface at any moment, and with terrific force.

The boom mechanism, it should be stated, was not limited to credit-pumping. There was also a mechanism for self-intensification of the boom. . . . If a person bought  $x$  number of shares, [the price of] which then doubled in two or three years, he began to feel that he was twice as wealthy as before, so he could keep back a smaller portion of his income in reserve. It seemed to him that he needed to save less, freeing up more of his funds for spending on personal consumption, as well as to increase his speculative operations, on the stock market first and foremost.

Thus, the market has lived on constant nourishment with liquidity, and on mass liquidity from that part of the U.S. population that plays the market. This is also an unprecedented figure, more than 50% of the population. Overall, it’s like a spiral: high earnings expectations, a big influx of liquidity, an increased demand for shares, automatically driving them up—which, in turn, automatically increased the profitability of this market through the automatic increase in share prices.

### **Another Pyramid Scheme**

We know this mechanism very well from the infamous case of Mr. Mavrodi’s MMM pyramid. The construction [of the U.S. stock market] is not at all different from that. It was built by exactly the same principles: the influx of cash allowed Mr. Mavrodi to keep making the ever-growing payments on the MMM shares, on which he was setting the price, and only he could see when the influx would dry up and collapse the whole pyramid. Such pyramids cannot last forever. But, they can exist for quite a while, given a sufficiently high level of greed and a high level of confidence among the participants. As to the level of greed, nourishing the U.S. stock market in the 1990s, perhaps [it is difficult for you to see because] we here have not grown accustomed to normal notions of profitability. After all, the average returns on shares there, over long periods of time, are very low, according to the notions that predominated in the Russian economy at its early-1990s turning point, when somebody could make 300 and 400% per annum. So perhaps this will seem modest, but the rates of 15-20% annual growth, which were constantly shown in the American statistics, pulled everybody into this pyramid.

It might be difficult to ask the participants in the pyramid, why they didn’t ask themselves the following: How can this be, if during the entire century, the growth rate for corporate

earnings was essentially the same as the growth of GDP as a whole? For the century, profitability averaged 5 or 6%, which was not far off the growth rates for the economy.

It is often said that Russian economists are too far away from American reality to have an accurate impression of the U.S. economy, and that therefore our approach to evaluating what is happening there must be somehow “marginal.” But, I would simply like to quote Lawrence Lindsey, President Bush’s economic adviser, who recently said in a speech to the American Society of Editors and Journalists, “Last year, the private sector spent \$700 billion more than its post-tax earnings.” Here he paused, and repeated, “That is 7% of GDP. There has been nothing like this in the history of the U.S. economy. It is around 3% of the budget surplus, and the other 4% came from foreign investment. The United States has never been so dependent on foreign investment.” “We are in uncharted territory,” Lindsey said, “and we don’t know what will come of this. We cannot borrow 4% of GDP from the rest of the world for the indefinite future. Imagine going to your banker and saying, ‘Thanks a lot for the \$280 billion you loaned us in 1999 and \$435 billion in 2000. It looks as if we’ll need another \$520 billion this year, \$650 billion in 2002, and probably \$800 billion in 2003.’ This is called ‘evergreen’ financing, and it cannot exist. Sooner or later, it comes to an end.”

Indeed, this problem can hit all the existing financial markets very hard. But in spite of this, the same Lawrence Lindsey continues to support the strong dollar policy, on which the influx of capital to the United States has been based, thus drawing the rope more tightly around the debt trap, and, in a sense, impeding any long-range resolution of this powerful contradiction on the market. Thank you very much.

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Dmitri Mityayev

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## Russia Must, and Can, Act To Protect Itself

*Dmitri Mityayev is president of the Center for Systemic Forecasting. His speech was translated from Russian.*

We have had plenty of macroeconomics today, so I shall try not to deal with that side of things. I believe we are living in a system of false notions. There is no world financial market, in the sense we use that term. There is a system of interconnected cartels, which derive superprofits. There is the stock market cartel, there are the commodity cartels, including OPEC, there is the gold market cartel, there is the currency

cartel, and there is a cartel that is absolutely not understood or studied, but which is powerful nonetheless — the cartel for shaping expectations on the derivatives market. These things are all interconnected.

In this sense, globalization is the global power of these few dozen players, among whom the central banks and ministries of finance are sometimes not the biggest or the most powerful. And history shows that, as a rule, unless the three main central banks — the Federal Reserve System, Europe, and Japan — unite, the combined power of the so-called financial speculators can breach any defense.

There is no economic competition among America, Europe, and Japan. There is, rather, an ongoing economic war, in which all means are utilized — from hoof and mouth disease, to Macedonia, and so forth. There is no monetarism for themselves, in the standard sense; it is only for export to backward countries, in order to forge techniques there for pumping out financial and other resources, while for themselves, fairly tough market programming is employed. This is the Keynesian model, if not Marxist.

Therefore, what I now see as the main danger for Russia, since we’re discussing Russian threats and Russian responses, in the short term is the “paving” of Europe [by foreign capital], which is taking place before our very eyes. We can say a lot about the fact that the games of financial speculators are one thing, and the real economy another; in reality, everything is very directly and closely interlinked.

Since the beginning of the year, the euro has been devalued by 13% and continues to be pushed down, with the direct consequence being increased capital flight out of Europe. In April, it was 21 billion euro, which is 3% of GDP, or four times more than one year before. The capital flight, naturally, is to America. For the umpteenth time, the Europeans are paying for the stock boom that occurred, and in which the Europeans have already lost more than half of what they invested. It is a war for survival. Actually, all the players understand quite well the real rules of this game.

### Three Choices

In this sense, the United States has essentially three choices. Either turn Europe into a poverty zone, i.e., the same mechanism that was tested on Japan at a certain point, and then on several Asian and Latin American countries, and on Russia. Or, the ordinary American citizen will have to pay, an option which the current U.S. leadership is afraid of. Because the two-thirds of demand, and the domestic economy in general, is something sacred. This is why the strong dollar policy is being maintained, so that the ordinary American will not (God forbid!) get hit, and flee the stock market. . . .

And the third choice, the least probable, which they don’t really consider as an option, is for the initiators and main players themselves to pay, i.e., the global financial — actually, not even so much financial, as informational-financial — groups. Statistics have come out on these derivatives. Strange



*Dmitri Mityayev at the June 28 press conference.*

as it might seem, the biggest holders of derivatives are not only banks, but also real sector companies such as General Electric, which lost \$1.2 billion on this market during the first quarter, though that's not a huge sum. Therefore, since nearly everybody over there is taking part in this, that third option, the most exotic, is the least probable for them. All the other ways will be tried first, of course.

I should like to say, that the goals are not particularly secret. The United States is quite open about it. For those who understood what it meant, the United States announced the strong dollar policy through the State Department and Treasury Department, and made clear that the fate of the euro was directly tied to Europe's position on NMD [National Missile Defense]. There were such statements, not long ago.

Thus, the U.S. position on Russia is clear enough, and not particularly hidden. I am looking not at the whole range, but at the financial and economic side. There has been a policy decision to revive offshore operations, as the main mechanism for pumping financial resources into the U.S. stock markets and other U.S. financial markets.

I have already said, that what happens in Europe is the chief, medium-term danger for Russia, because that is our main market. And the near- and medium-term threat is a very serious threat of a several hundred-fold devaluation of our strategic assets. Because, in the event of a serious world crisis (there are the relevant examples from history), fictitious capital—as it is called, although it sees itself as quite real—runs into material assets. Therefore, there needs to be an adequate response to this threat, otherwise Russia will find itself without strategic assets in a relatively short historical period of time. And there will be no room left for counteraction. I have already identified that this is a serious threat, the threat of financial isolation in the event of Washington's choosing this "cold" option. This would mean a possible long-term depression in the European Union, even if the United States "recovered" by pushing Europe down. As happened, I repeat, with Japan, the United States could buy some time for a new round of financial and other profit-taking.

Another threat is the lack of any understanding of this world dynamic, and the real threats, within our state's strategy. Academician Lvov spoke here about the actions of the Russian government being directed essentially in the opposite direction. This applies to the rent payments, which the President discussed in his Message [to the Federal Assembly]. Instead [of what the President called for], as of Jan. 1, 2002, all the remaining small rent payments are being abolished, and there is a transition to a uniform tax rate for all.<sup>1</sup>

## **Europe's Independence**

The point, here, is the importance of pushing ahead the talks with the European Union on Mr. [Romano] Prodi's initiative, or his two initiatives, on doubling the supply of energy to Europe from Russia. Indeed, looking ahead 10-15 years, Europe has no alternative, because its other sources of natural gas will be exhausted by that time: Norway and Great Britain. There was some discussion of shifting to the euro in foreign trade, but this initiative was politely received as some kind of exotic proposal. In fact, Russia would be no less interested in this than Europe, but only within a certain negotiating framework. A whole set of deals should be concluded with Europe, that is, and linked with resolving the state debt problem and with fixing long-term prices on Russian commodities. In other words, a shift to the euro should be coordinated with the establishment of fixed prices, so that we can do some normal planning.

Because, if things keep going the way they are, those raw materials super-revenues, which Russia has been receiving, will cease to be, in the near future. The whole spectrum of problems which we had in 1997, can reemerge rapidly. The markets of the European Union, as Russia's main markets, should become markets for Russian high technologies. I should repeat here something that seems paradoxical, but I really do think that in the long term, Europe has no chance to have its own identity, or security, without Russia, without "backward" Russian defense technologies, strange as that may seem, because otherwise Europe will depend on the United States forever. The option of using NATO as a sort of umbrella for governance, again, will lead to Europe's economic and other development being entirely dependent on what NATO's interests will be in Kosovo, Macedonia, and so forth.

On what should be some more obvious matters: The structure of Russia's gold and currency reserves should be brought into correspondence with the structure of our state debt and foreign trade. At present, we have mostly dollar assets. Actu-

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1. In his annual Message to the Federal Assembly (*EIR*, April 13, 2001), President Vladimir Putin echoed the language of Academician Lvov, when he said that Russia was "still living in a rent-based economy, not a productive one," and called for the earnings of the raw materials sector, known as "natural rent," to be directed in such a way that they benefit the nation far more than they do now.

ally, even the European Central Bank has 45% of its reserves in gold, despite all the talk about the declining role of gold. It did seem that the gold cartel, which existed for many years, was listing—but the practice [of holding gold] has not confirmed its demise. Russia, and all the leading central banks in the world, are not reducing that role of real assets in their gold and currency reserves. In Russia, we also have the possibility to increase reserves in the form of gold, other precious metals, stones, and so forth.

### The Stabilization Fund

The last point I'll touch upon, is the discussions around the stabilization fund, and whether it will come into being. And, we have Academician Lvov's model, about what should be on the balance sheet of some state agency, a Ministry of Natural Resources or something. The point here, is that those real surpluses that exist, need to be routed through the tax system and other legal agencies, so that the state receives its rent from these super-revenues. In principle, if these incomes are invested in dollar or other foreign-currency instruments, it is the same form of capital export, on which Mr. Illarionov and other of our leading gurus of the liberal path and the latest recovery of Russia, are currently insisting.

Therefore, the resources of the stabilization fund, or if they are in some other form, should be invested in real assets, above all in infrastructure. The land holdings and mineral deposits, currently exploited by Gazprom, the oil companies, and others (not only in Russia, by the way, but also in the CIS countries), were mentioned, and some estimates of their worth have been made. This will solve the problem of what to do next about the country's foreign debt, because, if these assets were to be appropriately capitalized, after assessment, the entire Paris Club debt could be paid down, or exchanged for a small portion of joint investments in those assets. In principle, this initiative is also on the table.

Finally, I should like to say again that I consider the subject of our parliamentary hearings to be very timely. I don't know, however—maybe there are some such people in the hall, but I don't see, at least among those who spoke, anybody who makes real decisions for the state, that is, above all, from the Central Bank or the Ministry of Finance. Of course, without something changing in those quarters, I don't think that the Parliament can accomplish anything on its own. Nonetheless, the earlier and more completely the dangers are diagnosed, the greater chance there is, that there will be time to adopt adequate measures. Thank you.

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Helga Zepp-LaRouche

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## The Eurasian Land-Bridge As a War-Avoidance Strategy

*Helga Zepp-LaRouche is the founder of the international Schiller Institutes, and the president of the Schiller Institute in Germany.*

Thank you, Mr. Chairman. I am very glad, that the preceding speaker mentioned the relationship between economic conflicts and problems, and military conflicts. I am going to talk about this, about the fact that economic policy has certain consequences, when economic depression leads to war.

Since the 1995 Halifax summit, but above all, since the Russian GKO crisis and the near-collapse of the world's biggest hedge fund, LTCM [Long Term Capital Management], the governments of the G-7 have had recourse to only one measure: pumping unbelievable amounts of liquidity [into the markets]. The speculative bubble in the "New Economy," which was the direct result of this liquidity pumping, has burst, and inflation, which had earlier represented asset-price inflation, is now spreading as commodity-price inflation, with a tendency towards hyperinflation. At the same time, due to internal economic breakdown, the United States is losing its role as the importer of last resort, which has hit Asian exports particularly hard: The tendency towards depression is increasing worldwide: banking crises, mass layoffs, depression. What is threatened, is a breakdown of the global financial system, of a sort not witnessed since the Fourteenth Century.

Was this development foreseeable? The answer is, loud and clear: Yes!

When, in November 1989, after the fall of the Berlin Wall, signs of the dissolution of the Warsaw Pact and the Soviet Union emerged, Lyndon LaRouche warned that it would lead to a catastrophe, if one attempted then to replace the collapsing economic system of the East, with the equally bankrupt free-market system of the West. The paradigm shift, over the preceding 25 years, which, through a long series of neo-liberal steps, had undermined the foundations of the economy, in favor of speculation, would inevitably lead to the collapse of the system.

LaRouche proposed, instead, to go back to the principles of physical economy, in the tradition of Leibniz, List, Mendeleev, and Witte. He presented the grand vision of a program for the "Paris-Berlin-Vienna Productive Triangle," as the locomotive for infrastructural and economic integration of Eastern and Western Europe, and for the development of the East. This concept called for the integration of the no-longer-divided industrial centers lying within the Triangle—the size



*Helga Zepp-LaRouche addresses a university audience in China, May 1996. She was in Beijing for the International Symposium on the Development of the Regions along the New Eurasian Land-Bridge.*

of Japan — and the most developed industrial capacities in the world represented there, through modern infrastructure, like the Transrapid [magnetic levitation railway]. Investments in frontier technologies were to enhance the productivity of labor power and productive plant facilities, as well as exports, especially in technology and capital-goods sectors.

From this Productive Triangle, so-called development corridors were to radiate out, from Berlin to Warsaw and St. Petersburg, via Prague and Kiev to Moscow, and through the Balkans to Istanbul. Integrated infrastructure projects, with high-speed railways, highways, and waterways, and computerized railway stations, were to constitute the transportation arteries of these 100 kilometer-wide corridors, along which the most modern technologies and industries could be brought into the East.

Instead of dealing an economic death blow to the allegedly obsolete industries of the Comecon, as the reformers of the IMF and shock therapy did, the industries of the East, though obsolete from a world-market standpoint, could, as valuable industries of the East, have been utilized, and could have played a meaningful role in the construction of the transportation arteries and networks; only then, after they had been “used up” in a certain sense, would they have been idled.

LaRouche’s warnings of the danger of the free-market economy, as well as his vision of the Productive Triangle as the motor of a reconstruction program for the East, and thereby the core of a global reconstruction program, were spread by myself and other members of the Schiller Institute to all leading circles in Eastern and Western Europe, beginning in January 1990, through numerous conferences, as well as to the broader public, through our publications. Had these programs been implemented at that time, they would have led to the biggest economic boom of the century.

But the great opportunity, to place East-West relations,

for the first time in the Twentieth Century, on a completely new basis, of peace through development, was missed. Margaret Thatcher, François Mitterrand and [the senior] George Bush, chose the geopolitical option of excluding Russia as a potential competitor, from the world market, and reducing it to a raw-materials exporter. Bush proclaimed the “New World Order,” which, like globalization, turned out to be the expression of Anglo-American unilateralism.

In 1991, when the disintegration of the Soviet Union rendered necessary a new political and economic perspective, LaRouche proposed extending the Productive Triangle to the Eurasian Land-Bridge, which should run along three main corridors: “Corridor A,” the Trans-Siberian railway and the line of the ancient Silk Road; “Corridor B,” from China, via Central Asia and Eastern Europe; and “Corridor C,” from Indonesia, through India, Iran, and Turkey, into Western Europe.

Through an entire system of auxiliary corridors, the whole Eurasian continent was to be connected. These corridors were not supposed to be just transport connections, but infrastructure arteries, around which advanced technologies could be brought in, so as to no longer merely extract raw materials, but to process them on the spot, and in this way build up modern industries. So, for the first time, these landlocked areas of the vast Eurasian continent could enjoy the same geographical advantages that were previously the privilege only of territories with access to the oceans.

To service existing populations and the expected population growth, especially in the densely populated areas of Asia, approximately 1,000 cities were to be built along the corridors. Inherently safe nuclear reactor models, such as the high-temperature reactor, were to be built to supply abundant energy to industry, agriculture, and cities. Between 1992 and today, the Schiller Institute presented the conception of the

Eurasian Land-Bridge—including its extensions via the Bering Strait into the Americas, and via the Middle East into Africa—as a global reconstruction program for a just new world economic order, to literally thousands of conference and seminar audiences in all five continents.

### **A Worldwide Land-Bridge Movement**

After the Beijing “International Symposium on the Development of the Regions along the New Eurasian Land-Bridge,” a conference which took place after two years of intense preparation on the suggestion of the Schiller Institute, and in which Dr. [Jonathan] Tennenbaum and myself participated as speakers, we escalated this organizing. We also, in the same time frame, organized a series of seminars with participants from the various cultures of Eurasia, to deepen the understanding of each other’s scientific, economic, philosophical, and cultural traditions—and where they are similar, to deepen the foundations for a dialogue among our cultures. I can proudly say, that we have created a worldwide movement for the Eurasian Land-Bridge!

Given the fact that I am a German citizen, I wish to address the issue also from a specific German point of view. On one level, it is self-evident that the development of Eurasia is in Germany’s fundamental self-interest. Because of the relative scarcity of raw materials, the German economy only functions if it concentrates on continuous progress in science and technology and their application in the productive process, and if Germany has expanding markets with ever more prosperous customers. Under the regime of the “free market” and “globalization,” Germany has lost many of its traditional markets, and, therefore, needs the Eurasian Land-Bridge perspective.

On a deeper level: We in Germany remember very well the connection between depression and war. In light of the threat of a global depression and the many already obvious dynamics, out of which new terrible wars could develop, it is useful to review the debate which took place in Germany during the world economic crises in the 1930s. The transcripts of a secret conference of the Friedrich List Society of Sept. 16-17, 1931, were first published in 1991. The subject of the conference was how to boost the economy under conditions of the simultaneity of a depression and a crisis of the financial system. Among the participants were Reichbank President Dr. Hans Luther, and about 30 leading bankers, industrialists, and economists. The keynote speaker was Dr. Wilhelm Lautenbach, an important economist and high official in the German Economics Ministry.

In his memorandum, he [Lautenbach] argued: “The natural course for overcoming an economic and financial emergency” is “not to limit economic activity, but to increase it. Under crisis conditions, the market, the sole regulator of the capitalist economy, does not provide any obvious positive directives.” In a depression and/or a financial collapse, there would exist the paradoxical situation, that “despite curtailed

production, demand is less than supply, thus leading to the tendency to decrease production further.”

Neither budget cutting, which reduces public contracts and mass purchasing power even further, nor lowering the interest rates, nor tax cuts, can solve the problem, but rather, they aggravate it, argued Lautenbach.

The key to the solution is to use the “surplus of commodities, unused production capacities and unemployed labor. “The use of this largely unutilized latitude for production is the actual and most urgent task of economic policy, and it is simple to solve, in principle.” The state must “produce a new national economic demand,” but it must “represent a national investment for the economy. One should think of such tasks as . . . public or publicly supported works, which signify value added for the economy, and would have to be done anyway, under normal conditions”—for example, roads, highways, and railroads.

Lautenbach then argued that the initial boost of infrastructure and investment projects would lead to an upward juncture of the whole economy, and that the [increased] tax revenue of the rejuvenated economy would be larger than the initial credit lines given by the state.

Had the Lautenbach plan of 1931 been implemented, the economic and political conditions would have improved in such a way, that the National Socialists would have had no chance to come to power, and World War II could have been avoided.

The realization of the Eurasian Land-Bridge is, therefore, today the best war-avoidance policy. It also represents the necessary vision of hope for the populations, which deserve a better Twenty-First Century than was the Twentieth. Thank you.

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Tatyana Koryagina

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## **Financial Crisis Will Sweep Away Governments**

*Dr. Koryagina is senior economist from the Institute of Macroeconomic Research at the Russian Ministry of Economic Development and Trade. Her speech has been translated from Russian. Subheads have been added.*

Dear colleagues! Helga and I are making our presentations, the attempts at intimidation, which we heard from Mr. Zhirinovsky, notwithstanding. Although it should be said, that as an individual, I did follow his advice in a certain sense, insofar as when I was elected to the first State Duma, I voluntarily

refused to take my seat—but that was for other reasons.

And maybe it really would be better for women to sit in the kitchen, if it were not for the fact that our people so often have to see so many idiots among the men coming across their television screens, and if today's brilliant presentation by Vladimir Volfovich had not been just as incoherent as always. But, it's too bad he's not here and I have to talk behind his back.

In a short presentation today, I shall try to sketch the development of the research done by our group, which is a group of independent experts studying the world financial crisis, but in a more global context than merely financial.

## Our 1997-98 Forecast

In the Autumn of 1997, we were requested by a major industrial finance group in Moscow, to draw up such an analysis. We delivered our product to the client at the end of March 1998. In the framework of our analysis, we made a three-level forecast.

Our first forecast was optimistic, and envisaged a devaluation of the ruble, as we calculated, within a factor within the range of one-and-a-half to two, by the Fall of 1998. Our middle version suggested a three- to fourfold devaluation, and our most pessimistic forecast suggested devaluation by a factor of five to seven.

It should be noted that our clients, who were quite well-qualified people—otherwise they wouldn't have ordered such a study in the first place—were skeptical about even our most optimistic prognosis. By June [1998], however, when I had occasion to speak at an open practical-scientific conference, organized by the Ministry of Internal Affairs at the Institute for Combatting Organized Crime, I limited myself to outlining only the pessimistic version, i.e., a devaluation of the ruble by a factor of five to seven that Autumn. To say that the audience was shocked, would be to put it mildly. During the first half of the day, I was sitting at the dais, but after my speech, they were scared to invite me back up to the dais, although the rest of the colleagues, who had been sitting next to me, were still there. I was denounced in the mass media.

Why did I need to discuss only the pessimistic version? In May, the cabinet had been broken, and Mr. Kiriyenko was named Prime Minister. For us, as analysts, this means that history was picking up the pace, and that events would be unfolding in the relatively graver ways we had identified, and possibly somewhat sooner, than our concept of a "black Autumn." And, so it happened. True, it was close to September—but still in August.



*Tatyana Koryagina*

The figure of Kiriyenko was worked up quite splendidly, by the forces, who were playing out this scenario. This person was rather widely dubbed on TV, "The kinder-surprise." We called him a talking head, or a talking parrot. This is a totally peremptory person, absolutely sure of himself, who knows absolutely everything about everything. Almost like Vladimir Volfovich, one might say. Although Vladimir Volfovich is still smarter than Kiriyenko, it seems to me—a bit deeper.

In the framework of that June [1998] conference, I hesitated to name the person, on whose behalf the game was being played. Literally ten days after my speech to our policemen, I was invited to appear on REN TV, where I again laid out the pessimistic "black Autumn" scenario, and said that we would have a new Prime Minister by the end of Summer. And when all the relevant events had taken place, and REN TV invited me again, they said: You seemed to have guessed that the default was going to happen, but the Prime Minister hasn't changed. And I said, "It's not yet evening." Two days later, Kiriyenko was out.

Thus, one of the hypotheses about why this game was being played, and which figures were acting in the open, was that the beneficiary was Yevgeni Primakov.

The only unexpected element, when this person really did emerge as the candidate for the premiership, was that Grigori Yavlinsky was the first to bring him up. I have known Grigori for a very long time, since our work together in Nikolai Ivanovich Ryzhkov's working groups at Sosny. He is a very cowardly person, who absolutely lacks his own point of view. He is the original "floating exchange rate"—but a political one, rather than for currency. Furthermore, and I say this as a person who has been living her political life somewhat in parallel with Grigori Yavlinsky—having sat with him, Gaidar, and Volodya Orlov at the conference table in Sosny—it is the case, that with Grisha Yavlinsky there always comes bloodshed.

There was the blood of the Pugo couple, and then some other incidents. Therefore, this was a very frightening prospect. I shall not go into details, but the fact that ultimately Putin came to power, I consider to be positive.

Let me say a little bit, about why our forecast was so accurate, down to the part of the month, even to the day, with the ruble falling already in the first days of August 1998—threefold, and then 4.3-fold. This was very close to the lower boundary of our pessimistic forecast.

Many colleagues here know me, and that I have studied the "shadow" economy of the Soviet Union and then Russia, in parallel with studying the ordinary, normal economy. So, when I was dragged by the ears into politics, as well, while studying our domestic "shadow" economy and expanding that to the study of the transnational "shadow" economy, I unavoidably landed in the realm of analysis that is sometimes called conspiracy theory. This is an analytical technique, a methodology, which makes it possible to fine-tune research

and quantitative evaluations, both with respect to time, and with respect to certain other kinds of parameters.

I shall not go in detail into the basis for our forecast, which I shall now present to you. Just take my word for it, as some colleagues in the Ministry of Internal Affairs audience did back then.

My forecast is that major events will unfold, once again, in August. In a strange way, it seems to me that the date may even be known. It will be on Aug. 19. I have provisionally called this scenario, "Tidal Wave XXI," where XXI denotes the new century, in Roman numerals.

## The Main Blow Will Hit the United States

The main blow will be inflicted on the United States of America. My colleague [Andrei] Kobayakov said here, that his analysis shows that the eye of the cyclone will be in America. I would only add, that it will emerge there, but this will be done on purpose.

Many of the preceding speakers mentioned financial figures, on the magnitude of financial assets, which had reached around \$400 trillion in 2000, as against \$30 trillion world GDP, and on capital flows. But it is consistently treated as unnecessary to analyze *who* is transferring that money. Who is the non-resident, with respect to the American economy? Where do these investments come from? If here we bring in our supplementary analysis and methodology, the picture becomes fairly clear, and can be observed, including with respect to the persons involved.

Thus, I make this determination. It will be the United States this time, and it will be a crisis developing at a different rate than the one in 1997-98. At that time, the action was drawn out. Here, it will be more of a precision strike. It will be like the explosion of the Universe. And it will spread throughout all continents. Many governments will be swept away. The monetary and financial system of the world will change.

In Russia, beyond a doubt, the free exchange of currency will be shut down. And the approximately \$100 billion, now circulating in cash inside our country, will suddenly cause an enormous shock to Russian citizens. (It should be mentioned that the quantity of foreign currency, functioning in economic exchange to transact deals, is 1.5 times the ruble money supply, servicing economic activity.) It will be impossible to change money. Those who have a lot of money (and I told this to our policemen not long ago, at a follow-up conference held in May 2001) will use their greenbacks to wallpaper the bathroom, where they'll be able to admire the portrait of a past President of the U.S.A.

There will be a change of leadership in the U.S.A., and early elections in Russia. By this Fall, there will be a new Parliament, a different government, but the President will remain the same. Insofar as I nevertheless fear to say too much—and I could say very much—thank you for your attention. God grant that my forecast turn out to be wrong. May God grant that!

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## Concluding Remarks

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**Sergei Glazyev:** Dear colleagues, we must conclude our parliamentary hearings. There were very many interesting ideas expressed here, as well as proposals, often contradictory ones. I should like for our guest, Mr. LaRouche, to comment, perhaps, on what seemed the most interesting to him.

**Lyndon LaRouche:** I would like to emphasize, as most important, what was said by Academician Lvov, with which I concur, and I can add something I consider important, to his remarks.

In 1971, the United States and many Western European countries reached a turning point, with the adoption of the floating exchange-rate system, which meant the looting of the whole world, including the United States. There was no economic growth in the United States in the 1970s. There was monetary gain, but only because those important matters, which Academician Lvov talked about, were ignored. It did not count the cost to the economy, of that monetary growth, the unpaid costs of maintaining economic infrastructure and natural resources.

In that decade—a total of \$3 trillion in losses to the U.S. economy. At that time President Carter was in power, and he was the biggest disaster for the U.S. economy, until what we have now. He did more than any other U.S. President to ruin the U.S. economy. He destroyed the system of regulation, the system of protectionism, resource security, and infrastructure. He destroyed the economy.

After Carter, Bush proposed reforms, which continued the looting of the U.S. economy. And with the collapse of the Comecon sector, the British and others started to loot the whole world, just as the U.S. economy was looting itself.

The question here, associated with this trend, is Russia's natural resources. The income from these resources, somehow, does not come back into Russia, and that's a big problem. The natural resources of Russia, and the infrastructure to maintain them, cost money. In any healthy economy, government spending—direct, or through government programs, which support private organizations—for maintaining the basic economic infrastructure, is 50-60% of state spending. If you spend less than 50-60% of your revenues on infrastructure and improving it, if this is not done, the economy is destroyed. This is the responsibility of the state. The state can sometimes give this to private firms, but the state has to take responsibility for paying the costs of maintaining or replacing resources that have been used.

This should be a universal policy; this is a problem, which comes up in developing sector countries. We can create modern industry in Africa, but we can't maintain that industry, because there's no infrastructure. In Siberia, in that part of the former Soviet Union, in the Central Asian Republics, there are very wealthy regions for the development of Russia's

economy. And if we have special programs in the framework of regulating the economy, and we say that we should put aside a certain portion of our spending, and impose a special tax, which guarantees us that 50-60% of the national product will be spent to maintain this infrastructure—then, we can make an economic miracle.

But this is the most neglected element of economy, in the past 30 years. The importance is that we used to understand the necessity of maintaining basic economic infrastructure, maintaining it, replacing and restoring the natural resources, which we use.

**Glazyev:** . . . I think that within a week, some recommendations will be discussed in the Committee on Economic Policy, they will be adopted and sent to the agencies of state power of our nation. And I hope that the leading agencies of our country, the Central Bank, the government, and, of course, the State Duma, will find a use for the concern, and the conclusions made at our parliamentary hearings. And we shall continue to work on these problems.

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## Press Coverage

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# LaRouche Forecasts Are Big News in Russia

by Rachel Douglas

“LaRouche has no equal in the area of financial and economic forecasting.” This statement by an editorial writer for the Russian nationalist weekly *Zavtra*, introducing an interview with the American economist and Presidential candidate, typifies the media coverage inside Russia, of Lyndon LaRouche’s June 28-29 visit to Moscow.

The June 28 press conference on “The Russian Economy under Conditions of World Financial Destabilization,” given at the Central House of Journalists by Sergei Glazyev, Lyndon LaRouche, Helga Zepp-LaRouche, Jonathan Tennenbaum, and Dmitri Mityayev, drew five TV channels, two radio programs, the three biggest Russian wire services and two others, the dailies *Izvestia*, *Vremya MN*, and the *Moscow Times*, and another score of weekly and periodical publications. Those in attendance spanned the political spectrum. There was TV coverage in Moscow and St. Petersburg that evening.

An *Izvestia* wire story, web-posted on June 28, located the press conference and hearings in the context of the growing recognition inside Russia, that the latest phase of the global financial crisis is centered in the United States. It said that Russian people usually chuckle at the notion that there’s an

economic crisis in the West, but since the end of last year, “evidence has come out on the slowing of economic growth in America.” A “soft landing” failed to materialize, and “the negative trend has continued, despite the periodic pep administered to the stock market by the Federal Reserve System’s interest-rate lowerings.”

*Izvestia* recalled that the participants in a March conference near Moscow on prospects for a crisis of the world reserve currency, the dollar (reported on by Jonathan Tennenbaum in *EIR*, March 23, 2001, p. 11), took note of warnings by George Soros and others about a crash, and recommended the diversification of state currency reserves. “At the [June 28] press conference, the need for such measures was motivated more dramatically,” with reference to the impact on Russia of a collapse of the price of oil, *Izvestia* wrote, citing Sergei Glazyev’s proposals to denominate foreign trade transactions in rubles, and diversify currency reserves. The *Izvestia* author expressed shock at LaRouche’s call to “end free trade” as part of the solution, and reported that “the American economist Lyndon LaRouche is convinced that ‘the crisis is reaching its end-phase.’ ”

The *Izvestia* story also cited Helga Zepp-LaRouche’s warning that hyperinflation is on the way, and her observation that even the current level of 3.6% annual inflation in Germany could make it illegal to shift to the euro at year’s end, according to a German Constitutional Court ruling.

Amid other print and Internet media attention to the Duma hearings, the nationalist weekly *Zavtra* chose to publish its interview with LaRouche in the July 3 issue, under the headline, “The Sparkle and the Poverty of the New Roman Empire.” The excellent, lengthy interview, made by prominent demographer and anti-zero-growth activist Tatyana Shishova at the end of last year and translated into Russian with obvious care, dealt with the flaws of “free trade,” “globalization,” and the International Monetary Fund; the Greek Classical vs. the Roman imperial lines in European civilization; the “new utopia” of H.G. Wells and Bertrand Russell; post-World War II geopolitics; the International Monetary Fund and “world government” policy of eliminating “superfluous people”; what the world can expect from George W. Bush; Russia as the keystone nation for Eurasian development; transportation and development corridors; sovereign nations vs. globalist “world government”; and the potential of national governments against oligarchies and their foreign masters. (See box, for *Zavtra*’s editorial introduction.)

## Fracas over Forecasts

The content of the State Duma hearings drew even more attention, when the Russian Internet site Strana.ru, also on July 3, carried a short item quoting Dr. Tatyana Koryagina of the Institute for Macroeconomic Research at the Ministry of Economic Development and Trade, on her forecast for an explosion of the world economy this August, with the United States at the epicenter. Without mentioning the hearings, where Koryagina had testified (see her speech, in this *Fea-*

## 'LaRouche Has No Equal'

*The editorial introduction to Lyndon LaRouche's interview, published July 3 in the Russian nationalist weekly Zavtra, included this passage.*

One of the people who forged the theoretical basis for combatting the New World Order in our time, is the major politician and scientist Lyndon LaRouche. He was one of the first to engage the financial oligarchy, which has seized world power, and its chief institutions—the World Bank and the IMF. This was not an easy struggle: LaRouche spent five whole years in prison, accused of political conspiracy. Such a furious wave of protest was raised around the world, however, that LaRouche had to be freed.

LaRouche is nearly 80. He is not just a person, but represents an entire epoch. In 2000, he ran for President of the United States, surpassing the number of votes Al Gore received in several states. LaRouche has no equal in the area of financial and economic forecasting. For example, he very precisely predicted our Russian default in 1998. He has his own views on many things, views which not long ago might have seemed (and did seem!) strange, alien, and extravagant to many people in Russia. But, the more Russia is pressured by “the world community,” the more explicitly we experience on our own hide, the results of what Lyndon LaRouche forecast and warned about. We think that now, when so many incantations about the inevitability of a New World Order are heard from high-ranking politicians and in the media, we ought to listen especially attentively to the opinion of this outstanding man.

ture), the article recapped the main points she made there: that the crisis results not only from lawful economic processes, but from political moves by an international elite, and that this elite has decided to smash the U.S. economy, with results that will surpass the crisis of 1929.

Some hours later, the site SMI.ru—it specializes in monitoring and “spinning” the reports of other mass media, and is run by the same Gleb Pavlovsky who set up Strana.ru—posted a commentary on Koryagina’s testimony, with a screaming headline saying “Ministry of Economic Development Promises a Worldwide August 17” (the date of the ruble’s crash in 1998). While not expressly disputing Koryagina’s forecast of a U.S.-centered crisis this Summer, SMI.ru tried to paint her as a conspiriophobe, illustrating the text with a drawing of a sorceress holding a divining rod, and casting aspersions on the Ministry of Economic Development for letting such a

person speak for one of its think-tanks.

On July 4, SMI.ru posted Koryagina’s reply, in which she reminded that her forecasts were correct in 1998. As for what she calls “conspirological research,” she said, “Ten years ago, I thought such things were unserious in science. . . . But for many observers it is obvious that there exists a supranational center of economic planning on a global scale, with its own analytical centers. . . . It is usually called the ‘world government,’ although that concept is somewhat out of date.” She then laid out, again, the scenario for the United States to crash like a colossus with feet of clay.

The largest English-language newspaper in Russia, the *Moscow Times*, covered LaRouche’s statements June 29, under a front-page headline, “LaRouche Predicts Russian Greatness,” illustrated by a picture of LaRouche and Helga Zepp-LaRouche at the press conference. Economics writer Igor Semenenko emphasized LaRouche’s track record: “He predicted the 1971 collapse of the Bretton Woods agreement that fixed global currency rates and gave birth to the International Monetary Fund. And he predicted the demise of the Soviet Union and the reunification of Germany, 20 years later.” In summarizing LaRouche’s speech, Semenenko picked up his emphasis that, “For the next 25 years, the potential for growth will be in Eurasia,” where Russia plays a special role as “the only Eurasian nation that exists between globally extended European civilization and East and South Asia,” and his reference to certain “positive developments” in the United States, such as the revolt of a significant number of Republicans against George W. Bush.

### International Press Club: ‘Crash Inevitable’

*The International Press Club, which sponsored the June 28 press conference, issued this press release on that date. It was titled, “The crash of the world financial system in its present form is inevitable. The potential for a way out of the economic crisis is to be found on the continent, and in Russia, above all—according to Russian and foreign economists.”*

This was stated at a press conference held in the Central House of Journalists by Chairman of the State Duma Committee on Economic Policy and Business S. Glazyev; the well-known American economist, founder and editor of the journal *Executive Intelligence Review* Lyndon LaRouche; president of the international Schiller Institute (Germany) Helga Zepp-LaRouche; chief scientific adviser for the international Schiller Institute (Germany) Jonathan Tennenbaum; and president of the Center for Systemic Forecasting D. Mityayev.

In particular, S. Glazyev noted that the financial crises that have become more frequent in recent years in the United States, are fraught with grave consequences for Russia, whose economy is extraordinarily open and highly dependent on foreign currency. The unbalanced structure of the nation’s gold and currency reserves, which does not correspond to the structure of Russia’s foreign trade and debt obligations, creates the danger of an inability to fulfill current and long-term obligations, in the event the U.S. should abandon its



A selection of the Russian press coverage of the LaRouche visit.

“strong dollar” policy. In S. Glazyev’s opinion, the way out of the current situation lies in measures to strengthen the national currency and raise the stability of the ruble as a monetary unit, ending its status as a quasi-currency, entirely dependent on the dollar.

One method proposed, was the complete shift of foreign trade operations to denomination in rubles. Nonetheless, the fundamental problem of today remains that neither the Central Bank of Russia nor the Ministry of Finance notice, or perhaps they simply don’t want to notice, the world tendencies, connected with financial crises and collapses of production in all the leading centers of the world economy—the U.S.A., the EU, and Japan.

“The Central Bank and the Minister of Finance prefer to believe devoutly in the dollar and its stability, considering that the Russian economy’s linkage to the American currency is an anchor, providing economic stability for the country. If economic policy is not changed in the near future, technical default is inevitable for Russia in 2003,” concluded S. Glazyev.

The American economist L. LaRouche presented his view of overall world economic tendencies, and the role of Russia in the global economic process. First of all, he noted that the world financial system needs to be restructured, in connection with the shift of the center of the world economy to the Eurasian continent—to Russia and Asia. Secondly, the American scientist positively assessed the foreign policy

steps of the new Russian leadership, to support and strengthen its relations with Asian countries and the European Union.

“The step Mr. Putin made in Shanghai, I view as economically very important: There is a rebirth of the idea of creating a single Eurasian axis, on which Russia, China, and India will be located. Moreover, I consider the dialogue, begun between Russia and the German authorities, to be quite constructive,” noted LaRouche. The American economist negatively assessed the policy of the new Presidential administration in the U.S., commenting that all of Bush, Jr.’s initiatives have failed, only increasing the abyss between the U.S.A. and Western Europe.

LaRouche’s opinion on the current state of the U.S. economy was supported by the chief scientific adviser to the international Schiller Institute, Jonathan Tennenbaum, who emotionally called the American financial system “a global nightmare.”

The press conference also touched on questions, having to do with promissory note circulation and the leasing system in Russia, the probability of a new default, the processes of globalization, and the need for the Central Bank of the R.F. [Russian Federation] and the Ministry of Finance to develop a package of anti-crisis, preventive measures, helping to avert the negative consequences of world economic tidal waves.

The release concluded with the announcement of the next day’s hearings.

## Sharon War Plan Exposed: Hamas Gang Is His Tool

by Jeffrey Steinberg

Highly placed U.S.-based sources have provided *EIR* with details of Israeli Prime Minister Ariel Sharon's plans for a new Mideast war, plans that were set in motion within days of his taking office earlier this year, and which are now set to be activated. According to the sources, shortly after he was elected, Sharon met with a group of trusted political and military allies, and spelled out, in several confidential memos, a war plan targetting the Palestinian Authority, the Hashemite Kingdom of Jordan, and other Arab neighbors.

Two key factors were identified by the sources:

1. Sharon's ability to use the Hamas group as a tool for destabilizing Jordan, ultimately overthrowing King Abdullah II and establishing Jordan as a "Palestinian homeland" under Hamas control. To this end, Sharon, who was instrumental in launching the Hamas movement, has dispatched his son as an emissary to the Islamist group. Key Hamas personnel have already been infiltrated into Jordan, in preparation for Sharon's provocation of war in the days or weeks ahead, the sources said.

In many ways, the Sharon-backed Hamas targetting of Jordan is a replay of 1970's "Black September" destabilization which involved Abu Nidal, long suspected of being an asset of British and Israeli intelligence.

In the 1970s, Hamas was built up by Israeli occupying forces as a "countergang" to the Palestine Liberation Organization (PLO) of Yasser Arafat. Individuals who later emerged as Hamas leaders were granted licenses by Israeli authorities to set up food kitchens, clinics, schools, and day-care centers, to create a governing structure alternative to Arafat's Fatah.

2. Sharon's ability to manipulate the Bush Administration into giving de facto support to the war drive. Sharon assumes that President Bush can be manipulated into supporting Israeli war provocations because Bush seeks to justify a defense buildup, which would require a perceived war danger in order to win Congressional support. Despite Sharon's public rebuke

by President Bush during their June White House summit, and subsequent statements by Secretary of State Colin Powell endorsing the entirety of the Mitchell Commission proposal for confidence-building measures, leading to a final peace agreement with the Palestinian Authority, Sharon remains confident that he can ultimately achieve American support for his war maneuvers.

Indeed, on July 6, testifying before Congress, Defense Secretary Donald Rumsfeld acknowledged that a war crisis would give the Administration leeway to crank up defense spending, from the current 3% of GDP, to 8-10%.

Sharon also assessed that Colin Powell and others who might not favor a war provocation, could be outmaneuvered by Israel and by U.S. "Israel Lobbyists," whom President Bush does not wish to cross. One senior aide to Defense Secretary Rumsfeld recently complained about a takeover of the Pentagon bureaucracy by Sharon's Likud party.

### Hit Teams Dispatched

According to the sources, Sharon has dispatched at least two Israeli hit teams to Europe, with instructions to assassinate prominent Arabs aligned with Arafat. Hamas teams are also reportedly activated — with clandestine Israeli backing — to target American assets in Europe and the Middle East. An "Islamist" terrorist attack against an American target, Sharon believes, would assure U.S. blessings for whatever "retaliation" Israel might take against Iraq, Iran, or Syria.

Sharon's so-called "moderation" after the June 1 Tel Aviv discotheque bombing was, say the sources, geared to win domestic support for a later war drive. Israeli right-wingers are fully mobilized to assure that Sharon will strike hard, the next time a suicide bomb attack occurs inside Israel. And the center-left has been lulled into believing that the "new" Sharon is more moderate, and prepared to seek a peaceful solution.

Further, the sources say, Sharon is conducting a vicious psychological operation inside Israel, to secure popular support for a war by staging continuous terror scares. One Israeli businessman confirmed that almost nightly, Israeli police enter restaurants, hotels, shops, etc., ordering patrons to evacuate due to “bomb threats.” The businessman, a former Mossad official, was told by Israeli authorities that the scares are in almost all cases hoaxes, perpetrated to traumatize the public into accepting any anti-Arab military actions.

In early July, Sharon temporarily shut down the Tel Aviv water system, in another psy-war operation, claiming that there was evidence that Palestinian terrorists might have poisoned the supply. He has appointed Ury Saguy, former head of military intelligence, as the director of the Mekorot National Water Company.

Sharon has, according to the U.S. sources, gotten the blessings of high-level factions in Britain for a conventional war, which would offer London an opportunity to extend its sphere of influence in the Persian Gulf. Sharon will soon seek a meeting with Russian President Vladimir Putin, in an effort to win some degree of Moscow support for the war moves. Sharon has reportedly drafted a secret memo, arguing that the expulsion of large numbers of Arab Israelis, as well as Palestinians, will allow Israel to fully absorb the more than 1 million Russian Jews who have emigrated to Israel, but who live in poverty.

### The LaRouche Factor

One U.S. source reported that Sharon’s ability to deploy Jewish terrorists in a provocation against Jerusalem’s Temple Mount/Haram Al Sharif Islamic holy sites was undermined by last December’s release of *EIR*’s Special Report, “Who Is Sparking a Religious War in The Middle East?” which exposed Sharon’s hand, and the British monarchy’s, in the plan to blow up the Mideast. Now, the sources add, Sharon is preparing to use a terrorist attack against Israeli civilians, likely to come from Hamas terrorists under de facto Sharon control—to justify war.

Sources noted that high-level Israeli military and intelligence officials share Lyndon LaRouche’s assessment that Israel cannot win a protracted irregular war. For a majority of Israeli military professionals, this means that Israel must accept a meaningful peace agreement with the Palestinian Authority. But for Sharon and his rabid allies, it means that Israel must provoke a general war, under cover of which Israel could occupy the territories currently under the PA’s control, and either eliminate or exile the PA leadership from the Gaza Strip and the West Bank.

Sharon would use any pretext to justify a military strike against Iraq, probably including a ground invasion of Iraq through Jordan, which would topple King Abdullah II, and pave the way for a Hamas government in Jordan. Israel has already attacked radar installations in Syria.

By launching such a regional war “in reaction” to a terrorist attack, particularly in the context of simultaneous terrorist



*CBS News and other media are picking up on the story first released on EIR’s website on July 10, but they are leaving out a crucial part of the story: Sharon’s deployment of Hamas.*

actions against American targets, Sharon would hope to assure that Israel would win the solid support of the United States and Western Europe.

Ultimately, the sources concluded, Sharon would move to “transfer” large portions of the Arab population of Israel—along with a majority of West Bank and Gaza Palestinians—to the east bank of the Jordan River, under a Sharon-sponsored Hamas regime, thus achieving the “final solution” to the “Palestinian problem.” Following the Tel Aviv disco bombing, Sharon had tried, unsuccessfully, to win Cabinet support for a mass expulsion of the Palestinians and Israeli Arabs.

### Ha’aretz, Jane’s Confirm EIR Reports

This story was posted to *EIR*’s website, www.larouche-pub.com, on July 10. After that, other sources picked it up. On July 11, the Israeli daily *Ha’aretz* published a commentary by Gideon Samet, confirming the Sharon plan. “Don’t rely on Prime Minister Ariel Sharon *not* to initiate a widespread assault, or an active defense-oriented campaign or a surgical operation—you name it,” he wrote.

CBS News reported, on July 12, that Jane’s Information Group in London had issued a report that Israel was planning a “massive invasion of Palestinian territories . . . to destroy Palestinian armed forces and the Palestinian Authority, forcing Chairman Yasser Arafat back into exile, as he was for 12 years after the 1982 Israeli invasion of Lebanon.” CBS described the plan as calling for “air strikes by F-15 and F-16 fighter-bombers, a heavy artillery bombardment, and then an attack by combined forces of 30,000 men, including paratroopers, tank brigades and infantry. . . . The report says the Israeli invasion plan would be launched after another suicide bomb attack which causes a large number of deaths, like the one at a Tel Aviv disco last month.”

Neither *Ha’aretz*, nor CBS, nor Jane’s mentioned the Sharon links to Hamas, an indispensable feature of the war plan revealed by *EIR*’s sources.

# U.S. Khobar Towers Case Has a Warlike Look

by Our Special Correspondent

On June 21, U.S. FBI Director Louis Freeh announced that indictments had been handed down in the June 26, 1996 bombing of the U.S. military residence, Khobar Towers, in Dhahran, Saudi Arabia, killing a score of Americans. The indictment against 13 Saudis and 1 unidentified Lebanese, has caused a storm of protests and an avalanche of speculation. The protests came mainly from Saudi Arabia and Iran. The Saudi Interior Ministry had announced two weeks earlier, that it was going to publish the results of its own investigation. In an extremely tense situation, where the United States is supporting Israel as it threatens to wage war against the Arab nations, the U.S. Justice Department acted with complete disregard for the national sovereignty and dignity of an important Arab ally. Furthermore, Iran, which the indictment accused of being behind the bombing, had just signed a security and anti-terrorism agreement with Saudi Arabia in April.

Saudi Interior Minister Prince Nayef bin Abdul Aziz responded by announcing that the American indictments have nothing to do with the investigation carried out in Saudi Arabia. In an interview with the Saudi daily *Al-Riyadh* on June 28, Prince Nayef said, "We are in no way interested in what was announced by the U.S. Attorney General, and that will not be considered in the case here. We are the only party which is in charge of the case. We know nothing about this thing the Americans announced." Furthermore, Nayef denied the existence of the "Saudi Hezbollah." However, he did not completely rule out connections between the Lebanese Hezbollah and the Saudis charged with the bombing. As for Iran's involvement, he said, "We have not found any indication of that, never."

## A Fantastic Tale

In a press conference, U.S. Attorney General John Ashcroft said, "For five years, the Justice Department and the FBI have worked to develop the evidence necessary to bring charges in this country against those responsible for this terrible crime." A smart young boy, if there were one there, could have shouted, "But there is no evidence!"—none is presented in the indictment. It was a tale of half-truths and outright fantasy, intended to point the finger at Iran.

None of the defendants had ever been held or interrogated by American authorities, except for Hani Al-Sayegh, who came to the United States, but later reneged on a plea bargain agreement with the U.S. authorities in 1997. The United

States then deported him to Saudi Arabia. His indictment now demonstrates either FBI incompetence for letting the prime suspect go in 1997, or a "reinvented" story now. Nine of the defendants are detained in Saudi Arabia, and all the FBI received from the Saudi authorities were videotapes showing their confessions. The only area of investigation involving the U.S. authorities, was explosives analysis and other technical and intelligence assistance to the Saudi authorities.

Furthermore, the indictment gives no evidence for connections with Iran, except that the Saudi defendants are predominantly of the Shi'ite Muslim religious minority—co-religionists with the Iranian population. Travel back and forth to holy sites in Iran can be easily used as "facts."

Another fact tailored to fit, is the indictment's reference to the fact that in May 1996, the month before the bombing, a truck carrying explosives from Lebanon was reportedly stopped at a border point between Jordan and Saudi Arabia. The driver of the truck was a Shi'ite Saudi, whom the FBI merely alleges to have been in touch with the Iran-backed Lebanese Hezbollah. Although at the time, this incident hit the front pages of the leading Arabic newspapers and led to a clampdown on Shi'ite dissidents in the country, it was later cleared up by Bahrain official sources that the explosives were destined to Bahrain, which was experiencing political and security destabilization due to the revival of the movement for the restoration of parliamentary rule. The disturbances were blamed on Bahraini Shi'as, who were allegedly backed by Iran. That episode is over now, with both the resumption of political reform in Bahrain and the restoration of diplomatic relations with Iran. The same is true of Saudi Arabia, which had quelled the unrest among its own Shi'ites and has tremendously improved its relations with Iran.

It should be borne in mind that, at the time, the man officially in charge of running Bahrain's security was none other than the old British intelligence officer Ian Henderson, well-equipped with gang/countergang strategies inherited from his work in colonial Kenya in the 1950s. Moreover, the Bahraini opposition was also operating out of London and supported by intelligence assets within the British Parliament.

Given the claimed discovery of the truck carrying explosives into Saudi Arabia in May 1996, why were no extra measures taken to protect the barracks in Khobar?

Why, then, has the name of Osama bin Laden, turned into a superstar by the FBI's own propaganda, been totally banished from this case? This is odd, since as a Saudi, one would expect he would command extensive terrorist networks within the Kingdom. This was most emphatically expressed in the recent trial in New York, of members of bin Laden's Al-Qaeda group, who were charged in the August 1998 bombing of the U.S. embassies in East Africa. The prosecutors and the court kept telling the jury that the defendants in that case were "in no way related to the bombing of Khobar Towers," and that was "to be taken as a fact and never to be disputed."

# Bush Provocations Meet Rising Anger in Asia

by Kathy Wolfe

Defense Secretary Donald Rumsfeld's remarks at the Senate Armed Services Committee on July 6, that a crisis such as the Korean War could provide funds for his "transformation" of the U.S. military, is typical of recent Washington statements provoking rising anger at the Bush Administration in Japan, Korea, China, and the rest of Asia, to match that in Europe. Now that President George W. Bush's tax cut has broken the budget, Senators demanded to know where Rumsfeld would get the \$150 billion needed over the next five years. "Let's be honest," Rumsfeld replied. "We're down to 3% of GNP going to defense. If there were a crisis, we'd be up to 8 or 10 in a minute, and we could afford it fine."

The comment is no accident, coming with reports that Brent Scowcroft, National Security Adviser in the Ford and first Bush administrations, will be the next chairman of the President's Foreign Intelligence Advisory Board. In 1993-94, Scowcroft was the leading voice calling for the bombing of North Korea's Yongbyon plutonium reactor, an insane idea exposed and defused by *EIR* at the time. These events occur as new Administration demands are pushing talks with Pyongyang to a breakdown, while insisting that Japan allow Okinawa to be used as a staging ground for conflict with North Korea and China.

Meanwhile, the International Monetary Fund (IMF) has been aggressively promoting its right to continue running Asian economies into the ground, making several trips to Japan and Korea during May, June, and July, despite the fact that neither has an IMF program. "The Fund as a global institution is incomplete if Asia is not playing a full role," Deputy Managing Director Stanley Fischer said in one speech, reflecting the terror in Washington that an alternative Asian Monetary Fund (AMF) may be formed instead. "And I believe Asia needs the Fund." Fischer, in Seoul and Tokyo on July 9-10, demanded policies which would result in a sharp collapse of the Japanese yen and Korean won, triggering another 1997-style disaster.

## Can't Tolerate It

Reaction in Japan has been particularly sharp, with the *Weekly Post* on July 1 reporting that Foreign Minister Makiko Tanaka called Bush "an asshole," referring to his many provocations against China and North Korea. One wonders whether the Minister would speak this way, and if the Tokyo scandal

sheet may be aiding an Anglo-American intelligence effort to have Tanaka ousted, but most Japanese believe this is precisely what she thinks. Ambassador Eijiro Noda, a senior Foreign Ministry spokesman, meanwhile proposed in the June 23 *International Herald Tribune* that the U.S.-Japan Security Treaty be "scrapped," in favor of "an economically interdependent community of nations in Asia," referring to the idea of an independent AMF.

The consensus in Japan and Korea, as well as among currents in China, Russia, and other Eurasian nations, is that "they can't tolerate the current IMF-based system any longer," *EIR* Founder and Contributing Editor Lyndon LaRouche noted on July 8, especially as that system is symbolized by the current resident of the White House. Patriots and powerful bureaucrats alike in Eurasia, he said, are all converging on the idea that Bush is a fool. The British are the imperialists that they are, and many European leaders are idiots. So, reality will force the Eurasian nations to break with the IMF.

Even London *Guardian* editor Peter Preston wrote on July 9 that Bush "is already in danger of looking a bit of an ass on the world stage." Bush is assuring that he will be, like the elder Bush, a "one-term" President, Preston noted. In contrast to Bill Clinton, who "got a grip" on events after a shaky beginning, "the looming question for George W. is whether he has any grip to get. . . . He has become, with a few clumsy strokes, the President of the right-wing minority—and lost control of the Senate."

Japanese Foreign Minister Tanaka is the daughter of former Prime Minister Kakuei Tanaka, who opened Japan's relations to China in 1972, and was then ousted by the Wall Street-run "Lockheed scandal," due to which she has a special anger against the Anglo-American Establishment.

Ms. Tanaka, who accompanied her father as Japan's First Lady on all his trips to China, Russia, and other foreign nations, is not known for speaking softly, and she has a good deal of power inside the new administration of Junichiro Koizumi. She has been using it since her April appointment to oppose National Missile Defense (NMD), among other Bush programs, as a provocation against China and North Korea. When U.S. Undersecretary of State Richard Armitage visited Tokyo in May to promote the NMD, Ms. Tanaka refused to receive him. She made numerous comments during a Beijing trip on May 24-25 criticizing NMD and Washington's targetting of China (see *EIR*, June 15, 2001, p. 48). The *Weekly Post* story goes, that on June 17 Tanaka visited her former high school in Pennsylvania, was asked about NMD and other Bush programs, and responded with the alleged remark.

There was a similar sense of rising gorge expressed in "Japan-U.S. Security Treaty Should Be Scrapped," an editorial by Ambassador Noda in the June 23 *International Herald Tribune*. The alliance "presupposes a common enemy. Japan, however, has had no enemy from at least the '90s, let alone a common enemy with the United States," he begins, all but

announcing that North Korea and China are no enemy of Japan, and dismissing 90% of the case for the Bush NMD. The way the United States uses its bases on Okinawa and elsewhere “reminds me of life in a Soviet satellite state,” he says.

### **Target: China**

In particular, Noda writes, the U.S. bases must not be allowed to be used for a Bush confrontation with China, such as the U.S. plane which collided with a Chinese fighter off Hainan almost provoked. “Is it necessary for the United States to continue surveillance flights off the Chinese coast when the U.S. government officially states that it does not see China as an enemy?” Noda asks. “Why should Japan approve such flights from bases located in Japan? Japan risks impairing friendly relations with China.” Similarly, “on April 25, President George W. Bush declared that the United States would do whatever it takes to help defend Taiwan. But Japanese voters are very unlikely to approve of cooperation with the United States should an armed conflict occur in the Taiwan Straits.” The treaty should go, so that Japan can work with China, both Koreas, and other neighbors in “an economically interdependent community of nations in Asia,” he concludes. “Political neutrality would enable Japan to live up to its pledge to be a peace-loving nation.”

A top Korean diplomat noted that Rumsfeld’s comments, continuing Bush provocations against North Korea, and the sharp reactions in Japan, are all part of an underlying reality in which Washington is actually targeting China, the region’s giant, as a way of trying to control all of Asia. “Always remember that China is the unspoken agenda of North Korea policy,” he said. “A powerful group of Rumsfeld, Wolfowitz, Armitage, and so on, see China as the strategic enemy, especially around the Taiwan issue. They believe the Pentagon in the 1980s brought down East Germany and used that to bring down the U.S.S.R., so they want to bring down North Korea which, so they imagine, will bring down China the same way.”

He pointed out that the elder Bush, in a June 15 speech broadcast in Cheju, South Korea, referred openly to the parallel between bringing down communism in Eastern Europe in 1989, and plans now for East Asia. “Every new American President needs to take time to assess where he stands in terms of foreign policy issues that he inherited from his predecessor,” Bush said, explaining his son’s attempt to dump South Korean President Kim Dae-jung’s “Sunshine Policy” for peace with North Korea. Bush said that he himself had done that in the case of the former Soviet Union. “My summit with President [Mikhail] Gorbachov followed and the rest is history,” Bush said. “In fact, a year or so later, the Soviet Union dissolved. The new administration is proceeding in a similar way.”

A secret commission appointed by the Senate Intelligence Committee, led by Gen. John Tilelli (ret.), former commander

of U.S. forces in South Korea, and including former China Ambassador in the first Bush Administration James Lilley, leaked to the July 6 *Washington Times* and *New York Times* its conclusion that the CIA has underestimated China’s military threat. “China may be moving toward a belligerent stand,” Sen. Richard Shelby (R-Ala.), vice chairman of the Intelligence Committee, told the *Washington Times*. “China is, has been, and I believe will be a big competitor of ours, economically, militarily, politically. They could be our biggest adversary.”

### **IMF Getting Desperate**

Asian leaders shake their heads at the new fad for “World War III” scenarios in Washington. It is increasingly clear to them that the collapse of Anglo-American global financial power is the real issue pushing the Bush lunatics to find excuses for a war drive.

In a June 1 speech in Singapore entitled “Asia and the IMF,” the IMF’s Fischer made clear that the Fund is very upset at the motion toward a new system. He went on about how the IMF is trying to reform itself and pledged to support Asian economic integration, virtually begging Asian nations to “stay within the IMF framework.” “The Fund as a global institution is incomplete if Asia is not playing a full role,” he said.

The more the IMF worries it is losing its grip, the more aggressive it has grown. In late May, the IMF demanded during a Tokyo mission that Japan cancel its lifetime employment system, and put large numbers of Japanese out of work and “on the streets,” as one Wall Street source put it. The IMF also held a “Conference on the Korean Crisis and Recovery,” in Seoul on May 17-19, “to distill lessons from the Korean crisis and policies adopted” under the IMF. Despite South Korea having paid back all the loans to close the IMF program, the Fund insisted on their presence.

Fischer returned to Seoul on July 9 to complain that government aid is keeping large employers such as Hyundai alive. Fischer said that companies whose viability is questioned by the market “should be allowed to fail.” The IMF, in a Seoul press conference on Nov. 15, 2000, demanded that more than 100 companies be shut down, and many have been.

In Tokyo on July 10-12, Fisher urged Prime Minister Koizumi to push ahead with “reforms” which could throw 2-3 million Japanese out of work, then demanded that the Bank of Japan print yet more money. He admitted that this would trigger a collapse of the yen, as foreign money fled Japan. “Expansionary monetary policy means providing more liquidity and that would almost certainly drive down the value of the yen,” he said. “Obviously neither Japan nor the rest of the world wants the yen to go crazy, but there is room for a more expansionary monetary policy that would lower the value of the yen.”

The Japanese and Korean governments, however, may no longer be buying what Fischer is selling.

# NATO and The Hague Blowing Up the Balkans

by Umberto Pascali

Following the June 28 extradition of former Yugoslav President Slobodan Milosevic to the war crimes tribunal in The Hague—destabilizing the very Yugoslav government which threw Milosevic from power—the “sealed” indictments of two top Croatian generals who led their country against Milosevic’s Greater Serbia attack in 1993-95, were also handed down. This has thrown Croatia’s government into chaos. Balkan observers commented that the very same Anglo-American forces that had given Milosevic the “green light” in the late 1980s, were now behind the deployment of the International Criminal Tribunal for the Former Yugoslavia (ICTY).

What is the aim of such apparently contradictory activities? Many in Zagreb, Skopje, Belgrade have no doubt: The ICTY is a political instrument used to destroy whatever remains of the national sovereignty and independence of the Balkan countries, as they attempt to recover from years of war. But it is not just a Balkans issue. More in general, the ICTY represents the attempt to establish world government, over warring ethnic “microstates” beneath.

Indeed, between June and July, The Hague Tribunal and its chief prosecutor, Carla del Ponte, have rampaged over former Yugoslavia, provoking the instantaneous destabilizations of several countries, to the point that its actions are now known as “destabilization through judicial means.”

## Macedonia as Well

The threat to unleash the Tribunal on the leaders of Macedonia, played a key role in armtwisting them to accept the advice by NATO Secretary General Lord George Robertson, the European Union’s Javier Solana, Organization for Security and Cooperation in Europe’s Ambassador Robert Frowick, the U.S. and British ambassadors, and the other grandees of the “international community.” Their advice was: Don’t fight back against the aggression launched by the Kosovo Liberation Army; the “conflict” is to be solved with “peaceful means.” Local sources told *EIR* that a top governmental official was asked why, after so many ultimata against the KLA for its aggression and cross-border invasions, the order to carry out those ultimata never came, leaving the KLA with an aura of impunity. The answer was: “I don’t want to end up in front of The Hague Tribunal.”

As consequence, now Macedonia is de facto partitioned, with an expanding area occupied by the KLA’s well-armed gangs, following a “cease-fire” mediated by NATO directly

with the KLA. The KLA is using the cease-fire to grab more and more territory, while the Maceconian government is under a form receivership, run by NATO, U.S. Ambassador James Pardew, and EU Ambassador François Léotard. Macedonia’s ethnic Albanian political parties, under tremendous pressure from the KLA, are refusing to sign any agreement that does not imply an official redrawing of the Constitution and an “ethnic veto right” by the ethnic Albanian leaders. Prime Minister Ljubco Georgievski called it the “worst flirting by the international community with terrorist groups we have ever seen. . . . We are witnessing a monster actually created by NATO.”

Macedonia had already risked a social explosion on June 25, when the government in Skopje allowed the 500 KLA guerrillas, who had taken over the village of Aracinovo, on outskirts of Skopje, to leave, with their weapons, and escorted by 81 U.S. soldiers and 16 military vehicles.

The gangs were relocated to the north near Kosovo, where they joined forces with other gangs. The head of the gangs in Aracinovo, a wanted drug dealer known as “Commander Hoxha,” had threatened to bomb the capital, the international airport, and the country’s only oil refinery. Several air-conditioned buses used by the U.S. contingent to move the KLA gang and their weapons, belonged to the U.S. company Halliburton. Halliburton’s former CEO is Vice President Dick Cheney, and one prominent board member is Lawrence Eagleburger, former head of Kissinger Associates, former chairman of the Yugo Corp. automaker, former U.S. Ambassador in Belgrade, and known for his previous close relations with Slobodan Milosevic.

Later, it was learned that among the 500 guerrillas, there were 16 U.S. military advisers, which seems to explain the bizarre rescue operation, which included preventing the Macedonian military from even approaching the terrorists.

Immediately afterward, a crowd of 10,000, coming from Aracinovo and greater Skopje, gathered in front of the Presidential Palace to protest the outrageous NATO protection of the KLA invasion of Macedonia. A group of police reservists entered the Palace, firing their machineguns. The President, who, at that moment, was in the middle of negotiations with the country’s ethnic Albanian parties, was hurried by his bodyguards through a back door, at the very last minute.

## Post-Milosevic Yugoslavia Targetted

Days later, Del Ponte succeeded in delivering a penultimate blow to the fragile institutions of the post-Milosevic Yugoslavia. The Hague Tribunal prosecutor had locked horns with President Vojislav Kostunica, almost immediately after his election. The immediate reason, was Kostunica’s insistence that Milosevic must be tried for his crimes in Yugoslavia, and that the Constitution and the legal system of the country cannot be shredded, just because of the demands of the International Tribunal.

Kostunica’s opposition The Hague Tribunal is not a de-



Macedonia's Foreign Minister Dr. Ilinka Mitreva (right) came to Lord Robertson's NATO headquarters in Brussels on July 6, when NATO was essentially coercing Macedonia to sign a "peace pact" with invading Kosovo Liberation Army guerrillas.

fense of Milosevic. Quite the contrary, his main concern appears to be similar to that of Cambodia's Prime Minister Samdech Hun Sen: to keep the country and its legal system alive, after years of war.

Kostunica, snapped Del Ponte, "is a man of Serbia's past," who should stand aside and make room for "the men of the future," in one of her more imperious displays of political interference. Del Ponte's momentary ally is Serbian Prime Minister Zoran Djindjic, obviously a "man of the future." However, Del Ponte seems to turn a blind eye (or two) to the fact that Djindjic used to be close to The Hague's most-wanted war criminal—Bosnian Serb, Radovan Karadzic. In a cynical turn of events, Del Ponte is reportedly negotiating with Karadzic, so that he would be her star witness against Milosevic, in exchange for clemency!

However, the Yugoslav Constitutional Court had ruled that Milosevic's extradition was "frozen," while the constitutionality of such an act was being discussed. Notwithstanding, a decision had been already taken, by London and the other Group of Seven "donor countries," that Milosevic was to be delivered to The Hague on June 28, no matter what. For this reason, a near-coup d'état took place in Belgrade, that day. According to a reconstruction published by *Nedeljni Telegraf* and many Belgrade papers—not denied by Kostunica, and de facto confirmed by Djindjic—Djindjic called Kostunica telling him that regardless of the Constitutional Court rulings, he was going to get Milosevic to The Hague. Djindjic said he

had an agreement with U.S. Ambassador William Montgomery, with whom he was going to meet to define the last details about the extradition; he asked whether Kostunica agreed.

The following is the taped conversation as published by the *Telegraf*:

**Djindjic:** What do I tell Montgomery?

**Kostunica:** (no reply)

**Djindjic:** Fine then, I'll resign, you take over all the reins, and govern on your own.

**Kostunica:** Fine, don't be like that. We don't have to create a conflict.

**Djindjic:** So, what do I tell him about the extradition—yes or no?

**Kostunica:** Tell him "yes," and then I'll publicly deny having said yes.

Djindjic was prepared for a confrontation not only with the Constitutional Court, but also with the Army. In a *New York Times* interview, he said that the police were "prepared, if need be, for a conflict with the Army. . . . We were prepared to take responsibility for the consequences." According to the Croatian *Nacional*, following the agreement with Montgomery, several U.S. Apache combat helicopters entered Yugoslav airspace, and circled for hours near the police helicopter that was to transport Milosevic, while U.S. aircraft were electronically monitoring the actions of the Yugoslav military.

As consequence, the Prime Minister of Yugoslavia, Zoran Zizic resigned, and the government is on the verge of collapse. On July 10, Serbian Premier Djindjic, the "winner," promised the Crown Prince of Yugoslavia, Alexander Karadjordjevic, the return of his royal palaces, after the family had spent 60 years exile under British royal protection—"a move that could herald the restoration of the dynasty," wrote the *London Times* enthusiastically.

## Croatia Hit, Too

The ICTY's "globalized justice" was even more devastating in Croatia, hit by Del Ponte on July 6. She demanded that the Prime Minister Ivica Racan accept two sealed indictments against Croatian Generals Rahim Ademi and Ante Gotovina. The legal and evidentiary bases for the indictments are, to say the least, subjective to groundless, especially in their effort to reconstruct the crimes' chain of command, dating back to 1995. But the point, again, appears to be that a supranational institution of dubious legality can impose its will, through force and blackmail, on any sovereign country.

"The real aim is to cause the maximum political destabilization and destruction of the sovereignty of all nations involved," commented Faris Nanic, the former Chief of Cabinet of Bosnian President Alija Izetbegovic. "They do not want to allow any serious investigation into the causes of the war, and its disgusting international backers and promoters of genocide, [of] Milosevic, Karadzic, et al."

# Chavismo's Last Stage: Fascism in Venezuela

by David Ramonet

The government of President Hugo Chávez Frías in Venezuela is preparing to enter into a new phase of “radicalization” of its celebrated “peaceful Bolivarian revolution.” It will once again reshuffle the cabinet, the High Command of the Armed Forces, and even reorganize the political grouping which keeps it in power. And while the population in general is on edge as to what this change will mean, Chávez’s foreign adviser and ideological mentor, Norberto Ceresole of Argentina, has no doubt at all: It will mean fascism.

“I’m worried about Chávez’s dialogue with the people of Venezuela. This is the dialogue which must intensify, and for which Chávez must modify his economic policy. That is to say, to go from International Monetary Fund-ism, to a distributionist, populist policy. Put it in quotes: a ‘fascist,’ or Peronist, policy. Chávez must intensify the dialogue with the people and with the Armed Forces; the rest doesn’t interest me,” Ceresole told Emilio Figueredo Planchart, director of the Internet magazine, *Venezuela Analítica* ([www.analitica.com.ve](http://www.analitica.com.ve)), and its journalists who spoke with him in May.

The journalist was not surprised at Ceresole’s cynicism, but he did ask him to explain what he meant by “put it [fascism] in quotes.” “It means that I defend the distributionist aspect” of fascism, the Chávez adviser smoothly replied.

Ceresole is an old Nazi-Communist agent who boasts of being the “theoretician” behind “Chavismo.” “I invented Chávez,” he says; or, “I dreamed of Chávez, and then I saw him walking the streets of Caracas.” And, indeed, the most prominent aspects of the Chávez program stem from the Ceresolian “ideology”: For example, using the Armed Forces for social work projects (as in the “people’s markets”).

Ceresole’s call to establish a fascist regime in Venezuela is no simple rhetorical turn of phrase. In the same interview, Ceresole explained that “the theoretical key [to Chavismo] lies in Carl Schmitt; I recommend that Venezuelan intellectuals read him. He is a great theoretician of the state. He develops the concept of *acclamatio*: very important. In his books he identifies what means of dialogue are open to a Leader such as Chávez: ‘The People is a concept which belongs to Public Law. The People only exists in the public sphere. The unanimous opinion of 100 million individuals is not the will of the People nor public opinion. It is sufficient to express the will of the People through acclamation—through *acclamatio*—through its obvious and incontestable existence.”

Who was the German jurist Carl Schmitt? He was called Hitler’s “Crown lawyer,” because all of the political measures which Hitler adopted, from the “state of exception” to open dictatorship, were justified by Schmitt, whom the academics view as the theoretician of the modern totalitarian state.

Indeed, Schmitt is the key. This is not the first time that Schmitt has been invoked in Venezuela, as I have reported previously in this magazine, and as Democratic Presidential pre-candidate Lyndon H. LaRouche, Jr. has emphasized in several writings. Since the controversy over the constituent assembly, which drafted the new Bolivarian Constitution of Venezuela more than two years ago, the theoreticians of the constitution have liberally cited Schmitt in support of their dismantling the established institutions, and the regime’s right to arbitrarily establish whatever institutions it chooses, based solely on popular “acclamation.”

Some Chavismo leaders tried to justify their fondness for Schmitt with the sophistry that “Schmitt was a theoretician, a legal technocrat, but he was not a Nazi.” False. Schmitt and his friend Martin Heidegger, who persecuted the Jewish professors in Germany’s universities, stood in line together to join the Nazi Party. With the declarations of his adviser Ceresole, Chávez has been exposed: His project is fascism.

## ‘State of Exception’

Last April 25, Chávez and his supporters in the National Assembly staged a pompous event to commemorate the second anniversary of the referendum which laid the groundwork for the formation of the National Constituent Assembly. The official speeches were given by former member of the Assembly Herman Escarrá, by Chávez himself, and by a representative of the Assembly. Chávez used the occasion to announce that he was considering declaring a “state of emergency,” because the powers he currently exercises are no longer sufficient to combat poverty and administrative corruption. He also announced the revival of the Revolutionary Bolivarian Movement 200 (MBR-200), the military lodge which Chávez founded with other officers to organize the February 1992 attempted coup d’état. He also made mention of a “strategic command of the Revolution,” which he deployed to purge, from his political base, the “disloyal” Movement for Socialism (MAS) party.

At that April event, Escarrá felt obliged to explain that “it was never intended in the Constituent doctrine of the Fifth Republic, to implement the thesis of the German Carl Schmitt, in the sense of legitimizing an apocryphal act of sovereignty, but rather to carry out a peaceful constitutional operation, in freedom.”

Notwithstanding, when the formal meeting concluded, Chávez charged Escarrá to draw up a report on the possibility of a “state of exception,” or emergency powers government. The answer Escarrá gave was that Chávez could decree a “state of exception” any time he chose, simply because “the Bolivarian Constitution of Venezuela envisions this.”

Shortly thereafter, Chávez began a three-week trip to Europe and Asia, during which the threat of a state of exception being declared—or a “self-coup,” as some called it—threw the country into a state of tension beyond any seen since the beginning of the Chávez government. Never before, have pamphlets and proclamations, in favor of and opposed to the government, circulated so freely in the barracks.

The pressure to reject this measure, including from some sectors of the Chávez camp, reached Chávez at some point of his trip, such that, from Indonesia, he declared that the conditions of chaos which would merit imposition of a state of exception, did not exist in Venezuela, despite the fact that his Attorney General had reported that the decree, complete with all the legal justifications, was ready. Chávez finally announced that there would be no state of exception, for now.

But the question which everyone has been asking since he raised the threat, is: Why a state of exception? Chávez has more power than any Venezuelan President of the last 50 years, and until now, he has only used it to comply, in every detail and with great rigor, with International Monetary Fund and World Bank policies. His ballyhooed economic “achievement” was to reduce inflation, but at the cost of an economic recession from which there is no relief in sight. His other achievement was an increase in the price of crude oil, which has more to do with the world financial crisis than with OPEC itself. But even that “achievement” has proven useless, since nearly all of Venezuela’s oil revenues have gone religiously to pay the foreign debt. Anything left over, has been wasted on populist projects and anti-development programs of the type promoted by the World Bank for countries which “do not have the luxury”—according to the Bank—of making major infrastructure, education, and agro-industrial investments based on the use of advanced science and technology.

That is the great irony of Chávez’s recent trip to Russia, China, Iran, and other countries. Within each of these countries, there is a serious policy discussion under way regarding a vast infrastructure project from east to west—from Amsterdam to the coasts of China—and from north to south—from China and Siberia to the Middle East, crossing through central Asia, in what is being called the New Silk Road, or the Eurasian Land-Bridge. As originally designed by Lyndon LaRouche, such a strategy would address the impending global economic depression and the bankrupt international financial system, and would include the creation of a new financial and monetary system, a New Bretton Woods.

However, throughout his tour, Chávez never touched on any of these crucial issues. Rather, apart from his notoriously bombastic rhetoric, he attempted repeatedly to destabilize his host countries. In Russia, he tried to set President Vladimir Putin on a collision course with the United States, which Putin diplomatically avoided; in China, he insisted on his Maoist nostalgia, in the face of a Chinese leadership which emerged from the triumph over Maoism. And in Iran, Chávez met with Ayatollah Khamenei to try to forge a “brotherhood” between

the revolution of the mullahs in that country with his own “Bolivarian” revolution. He did this at a moment when President Mohammad Seyyed Khatami has been attempting to promote a “dialogue of civilizations,” and to trace a moderate course for Iran.

## **Bolivarian Circles**

Most recently, Chávez has undertaken to organize “revolutionary Bolivarian circles” through his Sunday radio show, “Hello Mr. President.” In fact, he is trying to reorganize his base of political support, by dismantling the political parties that supported him during the electoral campaign, as part of the “patriotic pole,” because they are not sufficiently unconditional in their support.

In this drive, Chávez is confronting for the first time, the current Interior and Justice Minister, as well as organizer and leader of the Fifth Republic Movement (MVR), the veteran Luis Miquilena, who presides over the National Constituent Assembly. Chávez named him minister for a second time, in hopes of handing leadership of the MVR party over to his own brother Adán. However, the politically crafty Miquilena absolutely refused to hand over the organization he had created, and which counts among its members the largest bloc of Chavismo deputies in the National Assembly, the majority of Supreme Court judges, and the People’s Defender.

Thus stymied, Chávez opted for relaunching the MBR-200 from below, centered entirely around his own person, to rule “by acclamation,” and outside of the institutions. Chávez reported on his radio program that the political command of the revolution would operate out of the Presidential Palace at Miraflores, and that his brother Adán Chávez, the President’s private secretary, would be the coordinator.

Chávez doesn’t care that his “revolutionary Bolivarian circles” are being compared to the Committees in Defense of the Cuban Revolution established under Fidel Castro. He ridicules those who warn him that he is committing a crime, by using state assets to organize his own political party. At the same time, he says that those who do not join his “circles” are “enemies of the process.” Chávez is in a race against time, in part because his followers have not succeeded in winning over the organized labor movement, whose top leadership will be elected next September.

The trade unions haven’t been tamed, and are in fact the principle bastion of defense of the general welfare of the population, of the common good. They control the oil, steel, and aluminum industries, as well as the teachers’ unions and public services and other posts. So far, they are the only social organizations which have succeeded in getting the government to step back, as was seen in the oil strike of several months ago.

Lacking an entry in the trade union movement, Chavismo is trying to create a corporatist parallel “labor” movement with street vendors, and unemployed recruited by the “Plan Bolívar 2000 and 2001” distributionist programs modeled on Mussolini’s Italy.

# Britain Moves Toward Crisis-Emergency Rule

by Mark Burdman

In the face of a rapidly worsening global economic and strategic crisis, combined with an unravelling domestic situation in the United Kingdom, British Prime Minister Tony Blair has announced the creation of an “emergency crisis-management” unit, that will effectively rule Britain in the period to come. This extraparliamentary, proto-police-state apparatus is likely meant to serve as a model for other Western governments, including across the Atlantic, as leaders will be unable to cope with the stresses and strains hitting the world, this Summer through early Autumn.

On July 10, Blair’s 10 Downing Street proclaimed the formation of what the next’s day London *Daily Telegraph* described, on its front page, as “a powerful crisis-management unit in the Cabinet Office, to deal with national emergencies.” As the *Telegraph* reported, this new “civil contingencies secretariat . . . will provide an early warning of impending disasters, and draw up a strategy for handling them.”

The paper continued: “Mr. Blair wants the secretariat to carry out routine ‘horizon scanning,’ to look for potential crises. . . . The unit will work with every Whitehall [government] department, to identify areas of potential concern, and draw up strategies for handling crises. Experts in any area which might cause problems, will be lined up, for swift contact, and asked to help in any crisis. If a national emergency develops, the unit will step up its activity, co-ordinating crisis meetings in Cobra, the Cabinet Office Briefing Room. It will coordinate the flow of information around Whitehall and to the public.”

The formal, stated reason for creating the unit, was that British officialdom had reacted dismally, both to the recent outbreak of foot-and-mouth disease, and to last September’s national protests over fuel prices. While the importance of these issues cannot be underestimated, the reality beyond Blair’s announcement, is vastly more serious.

On July 11, a London insider reported that the highest echelons of the British establishment have concluded, that “emergency management” structures must be in place, for the combined, devastating effect of a coming Middle East war and global financial crisis, especially at a time when the Bush Administration is incapable of responding effectively. He said that the “deep concern” over such matters, is much greater than “the impression one would get, from reading the

British press. . . . The fear is such a combination of events could well occur, as early as the mad month of August, the month when wars have often begun.”

## ‘A Long, Hot Summer’

There has certainly been a “softening up” process, to induce much of the British population to accept extraparliamentary rule. An influential Scottish observer warned *EIR* that Britain is now entering a “long, hot Summer. . . . The situation is becoming very serious. People in the country are very jumpy and nervous.”

Over the July 7-8 weekend, Britain experienced its worst urban rioting in 20 years, in the northern English city of Bradford. Unrest in the city continued into the week of July 9. Bradford was where the current round of urban unrest had begun, during the Easter holiday, this year. Since then, riots have erupted in the northern English cities of Oldham and Leeds, as well as in the northwest English city of Burnley. All these cities are, to a significant extent, economically devastated.

In all cases, the riots have taken the form of, first, confrontations between Asian-origin and non-Asian Englishmen, and then, an ensuing round of bloody confrontations by either or both of these groups, with police. In the most recent case of Bradford, there is not the slightest doubt that British secret service-linked provocations are at the root of the unrest. The troubles began when the neo-fascist British National Party and National Front organizations — both of which are heavily penetrated by British intelligence operatives and are linked to “neo-Confederate” networks in the United States — announced, on July 7, that they would be holding a demonstration in Bradford. In response, an entity called the Anti-Nazi League began to whip up anger and ferment among Asian residents, and to send in agitators. The Anti-Nazi League is interchangeable with the British Trotskyist movement, and is also heavily penetrated by British security.

Simultaneously, other parts of the United Kingdom are primed to explode. Extremely precarious, as the month of July progresses, is the situation in Northern Ireland. The Northern Ireland peace process nurtured by former U.S. President Bill Clinton, is falling apart. Significant British military reinforcements have been brought into the region. Very knowledgeable British sources have told *EIR*, that “the situation in Northern Ireland could explode at any time.”

## An All-Points Crisis

There are several other shaky fronts in the U.K. Before the June 7 general elections, Blair and his Chancellor of the Exchequer Gordon Brown repeated, *ad nauseam*, how wonderful was the state of the British economy. That mythology, as ridiculous as it always was, was brutally blown apart, on July 5, with the announcement by the Marconi firm — mainstay of what remains of the British high-tech manufacturing sector — of massive losses. The company’s stock collapsed by over 50%, and 4,000 new layoffs were announced,

## Soros Behind Canadian Legalization Drive

Canada, a Crown jewel of London's Commonwealth apparatus, is on a fast-track to legalize illicit drugs, and this spells big trouble for the United States. Just as Canada served as a base for criminal drug- and whiskey-smuggling rings during the Prohibition era, Canada can be once again expected to play a pivotal role in flooding the United States with even larger quantities of illegal drugs than are now entering the country. And lawfully, the name George Soros surfaces prominently in the dope offensive.

In May, Canada's House of Commons, encouraged by Justice Minister Anne McLellan and backed by the Royal Canadian Mounted Police, formed a committee to "study" the benefits of decriminalization of marijuana. The top-down government initiative followed the Ontario Court of Appeals ruling in July 2000, that the law barring marijuana possession is unconstitutional, because it does not allow for "medical use" of the drug. At the time, the court gave the federal government one year to amend the legislation. The pro-pot side of the Ontario court case was financed by the Lindesmith Center — which is part of Soros' Open Society Institute, the bankroller of drug legalization initiatives in Arizona, California, and U.S. other states.

In 1999, Canada amended its Controlled Drugs and Substances Act to allow marijuana use for "medicinal purposes." Decriminalization would make marijuana possession a civil offense, with punishment reduced to a ticket and a fine, similar to those issued for traffic infractions. — *Art Ticknor*

on top of 6,000 announced earlier in the year.

That development exacerbated the anger among British trade unions, particularly in the public sector. Public-sector unions were already uneasy, before the June 7 elections, about the Blair government's commitment to privatize the main public services. This unease has greatly increased since then, in response to Blair's announced intention to break the power of both the public sector unions and professional associations (particularly medical doctors). In early July, senior officials of both the leading public-sector unions, and the British Medical Association, sharply denounced the policies of the Blair government.

The mood in the country has become ever-more sour, over the collapsed state of infrastructure, both "hard" (transport, etc.) and "soft" (health, education). This has turned worse

during the 1997-2001 Blair years, than it was even under the previous, Tory regimes of Margaret Thatcher (1979-92) and John Major (1992-97).

As for agriculture, Blair and his team have presided over a criminally insane policy, in response to the outbreak of the foot-and-mouth epidemic, first refusing the advice of sane experts, to carry out preventive measures such as vaccination, and then, during the election campaign this Spring, trying to cover up the extent of the problem. All sober experts now expect that the problem will soon explode again, in even more virulent form, and that the Blair government will oversee the slaughter ("cull") of yet millions more cattle, between now and the end of 2001.

Blair's overall position is extremely shaky, despite his apparent "landslide re-election victory" of June 7. That will soon prove to have been a pyrrhic victory at best, especially as, looked at clearly, Blair's totals were hardly magnificent: He only received 25% of all eligible votes. The 59% voter turnout was the lowest since 1918, when Britain was reeling from World War I, and many voters were still fighting in the trenches, or were terribly demoralized. Blair's absolute vote total was the lowest since universal suffrage was introduced, with women being given the right to vote, in 1928.

His July 10 announcement of an "emergency crisis-management" unit may also be seen as an attempt to cling to rule, under conditions of growing crisis and opposition. But matters are already gone "beyond Blair," and that apparatus, in whatever specific form, will actually rule Britain, whether or not Blair stays on as nominal Prime Minister.

### 'In the Grip of a Frenzied Campaign'

A survey of key developments in Britain would not be complete, without reporting the epidemic of derangement that has seized leading establishment circles, in the form of an organized movement for legalization of drugs. Since the June 7 elections, calls for drug legalization have become an increasingly dominating factor on the British scene. Three of the leading commentators of the Rupert Murdoch-owned London *Times* — Mary Ann Sieghart, Simon Jenkins, and Lord William Rees-Mogg — have appealed for legalization. Similar calls have been made by Sir Keith Morris, former British Ambassador to Colombia; by Sir David Ramsbotham, outgoing Chief Inspector of Prisons; and by former Home Secretaries Lord Jenkins and Lord Baker.

Drug legalization has been supported by Mo Mowlam, former senior Minister in the Blair government, and this has been taken to be a "softening" by Blair's entourage, on the matter. From the Conservative side, legalization has been endorsed by Peter Lilley, former Cabinet Minister, and, more tentatively, by Michael Portillo, the man currently in the lead to be head of the Conservative Party, after the Tories' pathetic June 7 showing. Lilley, a confirmed "Thatcherite" free marketeer, argued that the Conservative Party should be rebuilt, by appealing to younger voters, and others, around

the “libertarian” drug legalization issue.

One voice of sanity, in the midst of all this, has come from Melanie Philips, weekly columnist for the *Sunday Times*. On July 8, she wrote, “What on Earth is going on? Suddenly, Britain is in the grip of a frenzied campaign to legalize cannabis, and even all drugs. . . . Without exception, these arguments are intellectually dishonest, disingenuous or terrifyingly irresponsible. Yet they are gaining critical mass.”

## British Legalizers Aid Narco-Coup in Colombia

by Valerie Rush

Colombian citizens are watching in horror as their government conspires with a terrorist army of assassins, kidnappers, and drug-runners to cancel next year’s Presidential elections, and impose a dictatorship of terrorist blackmail and legalized drugs. Retired military officers are predicting that generalized civil war, certain to spill across Andean borders, will be the unavoidable consequence.

Behind the scenes, the financial elites of London and Wall Street are slaving at the prospect of vast new flows of money from legalized Colombian cocaine and heroin trade, under such a narco-dictatorship. Thus it comes as no surprise, that the din for legalizing drugs is becoming deafening, with the British establishment leading the pack.

July 1, a Commission of Notables, chosen by the government of President Andrés Pastrana and the FARC narco-terrorists to recommend a strategy to kick-start the country’s non-existent “peace negotiations,” issued a surrender proposal: 1) declare a truce; 2) call a Constituent Assembly, with 100 seats split between state delegates and terrorist representatives, to rewrite the nation’s 1991 Constitution; and 3) hold a plebiscite on the new “Constitution.”

Speaking to the press next day, the FARC’s Raúl Reyes was explicit as to the outcome of any proposal his narco-terrorist army agreed to: “What we want, is to govern. The FARC’s fight is to become the government.” President Pastrana assured Reyes that surrendering power to the FARC in a negotiated “peace agreement” would require “solid Constitutional grounding,” thereby necessitating a new Constitution.

### So Much for Peace

Just a week earlier, Reyes had declared that the FARC had decided to target Congressmen and judges for kidnapping, for the higher ransoms they bring. He also said the FARC has no intention of confining terrorism to the countryside, but

is preparing the encirclement and occupation of Colombia’s cities. So much for peace.

Although political figures close to the Presidency, such as Conservative Party director Carlos Holguin, have had to deny persistent rumors of a virtual co-government pact between Pastrana and the terrorists, the evidence speaks for itself. On July 3, Colombian TV reported a government decision to seat Pastrana’s entire Cabinet at the negotiating table with the FARC, the better to work out the details of the government’s planned “reforms.”

In July 2 statements published by the Spanish-language edition of the *Miami Herald*, a group of retired Colombian military officers warned that a bilateral cease-fire, as proposed by the Notables, would dramatically expand and consolidate FARC control across the country. They predicted that at least 40 areas where the FARC now claims supremacy, would become untouchable “demilitarized zones” (like the infamous FARClandia in Colombia’s cocaine heartland), into which neither government nor armed forces would be permitted to set foot. “This would be the beginning of civil war,” they predicted, because northern areas of the country, not yet under the FARC heel, would arm themselves. “Every day, we are further from peace and closer to generalization of the conflict,” said one officer.

### Drug Legalization Is the Goal

When New York Stock Exchange President Richard Grasso met the FARC’s Raúl Reyes in 1999 to discuss “mutual investment opportunities,” there was little doubt in anyone’s mind that FARC control over much of the Colombian cocaine and heroin trade was the key bargaining chip. The superinflated derivatives bubble that is the international financial system, desperately needs cash infusions to keep it afloat, and Colombia’s drug crops can provide the “fix” the London and Wall Street bankers want.

With Pastrana’s blessing, the FARC is on its way to becoming “legal.” Now the drug crops it oversees must be legalized, too. That is what former British Ambassador to Colombia Sir Keith Morris argued, in a July 4 interview with the *London Guardian*, in which he claimed the war on drugs is “unwinnable, costly, and counterproductive,” and that legalization, “politically impossible today, can become politically imperative tomorrow.” He said that establishing a legal framework, in which drug sales would be taxed “for the common good,” is now necessary.

The *Guardian* celebrated July 4 by publishing four articles pushing legalization. In subsequent days, the *Daily Telegraph* and *Times* of London made clear the British establishment has decided the time has come to ram legalization through, publishing front-page calls. Likewise, the *Wall Street Journal* has promoted the legalization campaigns of billionaire speculator George Soros and cohorts in the United States, hinting at a “softening” on the issue in the Bush Republican Party.

## Battle Still Continues Over Washington's Public Hospital

by Edward Spannaus



*Demonstrators protest the closure of D.C. General Hospital, with bodybags to represent those who have died due to the shutdown of the capital's only public hospital. The Longworth House Office Building is in the background.*

Although most of the remaining staff at Washington D.C.'s last public hospital, D.C. General, was scheduled to be laid off as of July 14, well over 150 activists and hospital employees made it clear at a July 11 town meeting, that the fight for public health and the general welfare in the District of Columbia is not over. The town meeting, the 24th since January, was designed as "A Salute to D.C. General Hospital and Staff," and its central theme was: "We will not give up until victory is won!" Speaker after speaker emphasized that he or she was determined to continue the fight to restore a public hospital in the District, no matter how long it takes.

In remarks delivered by audiotape to the gathering, Democratic Presidential precandidate Lyndon LaRouche, who has been the key political leader in the battle to save D.C. General, told the activists that "the political situation in the world, in the world economy, and in the politics of the United States is such, that nothing is a 'done deal.'"

"People in the Congress have let us down," LaRouche said, referring to the treachery of the Gore "New Democrats" who have blocked any action in Congress to reverse the illegal privatization of D.C.'s public-health system. "But they're going to be hit again by the issue," he forewarned. "The issue is going to come back."

Coalition leader, and meeting moderator, Dr. Abdul Alim Muhammad had opened the meeting by declaring: "We have fought for 24 weeks, for the principle of public health, which is emblematic of the principle of the common good. And we will fight for 24 months, or 24 years, or even 24 generations, if that is necessary." Those attending clearly agreed.

### Death Toll Rising

One key reason that the issue of the shutdown of D.C. General is not going away, is the rising death toll in Washington. Coalition leader and LaRouche movement activist Lynne

Speed announced at the July 11 meeting that the death toll is now as high as 20—people whose deaths may be attributable to the closing of D.C. General. Speed stressed that the actual death toll is probably much higher, because the ones which are known are mostly cases of homicides or other incidents for which police records are maintained. But in other cases, involving sudden illness or serious disease, it is much more difficult to obtain information about unnecessary deaths that may have occurred because of lengthy ambulance runs, and overcrowded emergency rooms with overworked staffs.

The highlight of the July 11 meeting was the honoring of D.C. General employees. About 30 hospital employees, ranging from laundry workers to administrators, stood up to

identify themselves and be recognized; most had worked at the hospital for at least one or two decades, and some for 30 to 35 years. All expressed their love for their work, and their dedication to serving all who came through the doors, with the highest quality of medical services.

Dr. Muhammad and others made the point that D.C. General is not bricks-and-mortar; that “what makes it a living, breathing, compassionate institution are the men and women who have dedicated their lives to this institution.”

“We’re here to save that spirit, the spirit of D.C. General,” Dr. Mohammed proclaimed.

In their remarks to the meeting, both LaRouche movement leader Dennis Speed, and civil rights movement veteran

## LaRouche: The Issue Is The General Welfare

*On July 11, Democratic Presidential pre-candidate Lyndon LaRouche spoke via audiotape to a meeting in Washington, D.C. sponsored by the Coalition to Save D.C. General Hospital. The meeting was designed as a tribute by the Coalition to the employees of D.C. General, who were all being laid off on Friday, July 13.*

This is Lyndon LaRouche speaking to you. I understand this is the penultimate meeting before the official closing of the hospital. I want to say several things which I think may be of relevance to all of you.

First of all, this fight has not ended, not merely because we are going to continue the fight to restore a full-service general public hospital in Washington, D.C., but because the political situation in the world, in the world economy, and in the politics of the United States is such, that nothing is a “done deal.” We’ve already seen the control of the Senate pass to the Democrats from the Republicans. We have seen other developments which show that the present Bush Administration, who are the fanatics for this kind of thing, are being weakened by themselves, by their own actions. They can’t seem to do anything right. This past week, we have seen the stumbling of the world economy into a new phase of downslide. This is not going to get better. It’s going to become worse. Politics in the world, and in the United States, are going to be shaken up.

### Health Care Is Emblematic

Now, the issue, is the issue, as I’ve said earlier, of the general welfare. And health care, of course, is emblematic of the general welfare. In the postwar period, with the experience of the 1930s, the experience of wartime medicine, we, in this country, enacted the Hill-Burton Act.

While the progress under that act was not always what we would have wished, nonetheless, we made progress. We had a good national health-care policy under Hill-Burton. Sometimes we didn’t live up to it, but the policy was good. Then, under Nixon, we had a change. The HMO [health maintenance organization] act was brought in to repeal Hill-Burton. And since then, especially since the collapse of New York City, and Big MAC in 1975, what had once been the fine medical system, the medical-care system of cooperation among public and private institutions and physicians, began to be destroyed. And over recent years, it’s been destroyed at an increasing rate.

This has been accompanied by a philosophy which says we don’t care about people, we care about shareholders. We no longer care about public responsibility for the general welfare. And people who are considered not so desirable, will get less care, and will probably depart our company a bit earlier.

We’ve now come to the point that none of us is going to survive, unless we restore the general welfare principle. That is, that government has no moral authority to govern unless it is efficiently committed to defend the general welfare of not only all the population, but also the posterity. This means health care, it means education, it means basic economic infrastructure, as well as the conditions of life under which private enterprise can make its contribution to improvement of the general welfare and general progress.

The fight is going on. The fight is going to get tougher. People in the Congress have let us down. But they’re going to be hit again by the issue. The issue is going to come back. It’s not a done deal; it’s not going to go away. And those of us who stay with the fight have a chance at least of victory in a struggle that is more than justified, and if we can do well enough, we’ll win. This is the beginning, not the end. This time, when we come back, we’re going to have to come back for a general welfare policy, and to restore to this nation a general health-care policy consistent with the intention of Hill-Burton.

Rev. James Bevel, emphasized the individual responsibility that D.C. residents must take to act as true citizens fighting for the general welfare and public health.

Rev. Bevel punctuated his speech on the theme “Citizen or Slave: The Key To Victory”, with several amusing anecdotes of his own civil rights experiences, to compel people to recognize the faults which lie within themselves, which prevent them from acting. If a bunch of crooks can come into the city and take away its only public hospital, Bevel warned—a hospital placed there 200 years ago through the efforts of the Founding Fathers—without a public uproar to stop it, then we have to realize, “something is wrong with us.”

The Coalition has resolved that it will keep meeting, and demanding action from Congress, until it succeeds.

## A Political Uproar

The uproar which has already been caused on Capitol Hill by Coalition efforts, is clearly visible. On July 11, D.C.’s non-voting Congressional Delegate Eleanor Holmes Norton sent a plainly frantic letter to the head of the D.C. Subcommittee of the Senate Appropriations Committee. It protested the inclusion of a provision “ratifying” the D.C. General privatization contract in the subcommittee’s submission to be included as part of the full 2001 Supplemental Appropriations bill. Norton has made clear she supports the privatization and the closing. Her attempt to stop the Committee from ratifying the policy she supports, was clearly because it was puncturing her and other Congressmen’s charade of recent months. Since April, Norton has insisted to all who approached her, that Congress has nothing to do with the D.C. General issue.

In her letter to Sen. Mary Landrieu (D-LA), the chair of the D.C. subcommittee, Norton states that the D.C. General contract is now “operative” and is being implemented, and she goes on: “Any language ratifying the D.C. General contract is both gratuitous and unnecessary and will open wounds that city officials are trying to heal. These matters are particularly inappropriate for Congressional intervention, and we are surprised that such anti-home rule language would be proposed from any member of the new Senate majority.” Norton is desperate to keep the issue from being opened up.

With the full backing of the Gore/“New Democrat” wing of the Democratic Party, Norton has been on an obscene rampage in Congress, demanding that other Members of Congress stay away from the D.C. General issue, which she perversely claims is an issue of “home rule.” (The shutdown of D.C. General was, in fact, dictated by the Congressionally appointed Financial Control Board, over the *unanimous* opposition of the elected D.C. Council.)

## How the Dems Were Turned Aside

After the Control Board dictatorially signed the contract and legislation privatizing the D.C. public health system on April 30, momentum was building for Congress to take action to reverse the illegal privatization contract. At the same time, the Gore/Norton forces among Democrats escalated their

threats against Members preparing to take action to save D.C. General. At a Congressional Black Caucus luncheon on May 2, Norton is reported to have thrown a fit, warning all members of the Black Caucus to “stay out of my turf,” and screaming, “this is all LaRouche!”

In mid-May, Congressman David Bonior of Michigan, the House Democratic Whip, placed in the Congressional Record a statement saying that he was “deeply troubled by the process that determined the fate of D.C. General hospital. Through the use of an un-elected control board, those wishing to see the hospital closed overrode the democratically elected D.C. City Council, who unanimously opposed the closure of the hospital.” Several California Congressional Representatives signed a statement, “Time To Draw The Line,” which cited LaRouche’s role in the D.C. General fight. The President of the National Black Caucus of State Legislators sent a letter to the Congressional Black Caucus requesting that action to maintain the hospital be effected. On May 28-29, House Minority Leader Richard Gephardt (D-Mo) and Sen. Tom Daschle, now Senate Majority Leader, told public audiences that they were committed to saving D.C. General.

But by the beginning of June, Senators Tim Johnson and Daschle had both pulled back from their support of days earlier, and others began circulating the line that privatization of public hospitals was a great “success” in other cities. This line was quickly traced back to a report being circulated by D.C. Mayor Anthony Williams and others citing the “success stories” in other U.S. cities — which all turned out to be less than successes, even under circumstances far more favorable than those in D.C. In the capital, the public hospital (D.C. General) was dismantled, not just taken over by new, private management as was the case in other cities.

It was evident even before the take-over contract was signed, that the scheme was riddled with corruption. The entity which runs Greater Southeast Community Hospital, the vastly inferior institution supposed to “replace” D.C. General, is Doctors Community Healthcare Corporation—an Arizona-based, for-profit company whose financial arm has been sued for fraud and racketeering in a number of jurisdictions. Its two D.C. holdings—Greater Southeast and Hadley Memorial Hospital—are admitted to be losing at least \$7.5 million a year. The privatization contract executed behind locked doors, under police protection, on April 30, constituted a massive bail-out of Greater Southeast and its parent company.

Meanwhile, in the wake of the closure of D.C. General, Greater Southeast is turning away patients, and people are literally dying on the streets, as ambulances roam the city from one hospital to another, looking for an available emergency room.

The healthcare situation in D.C. can only get worse, until the contract is voided; the coverup by the *Washington Post*’s Katherine Graham and her flunkies such as Eleanor Holmes Norton and Mayor Williams, comes to an end; and a public hospital is restored in the nation’s capital.

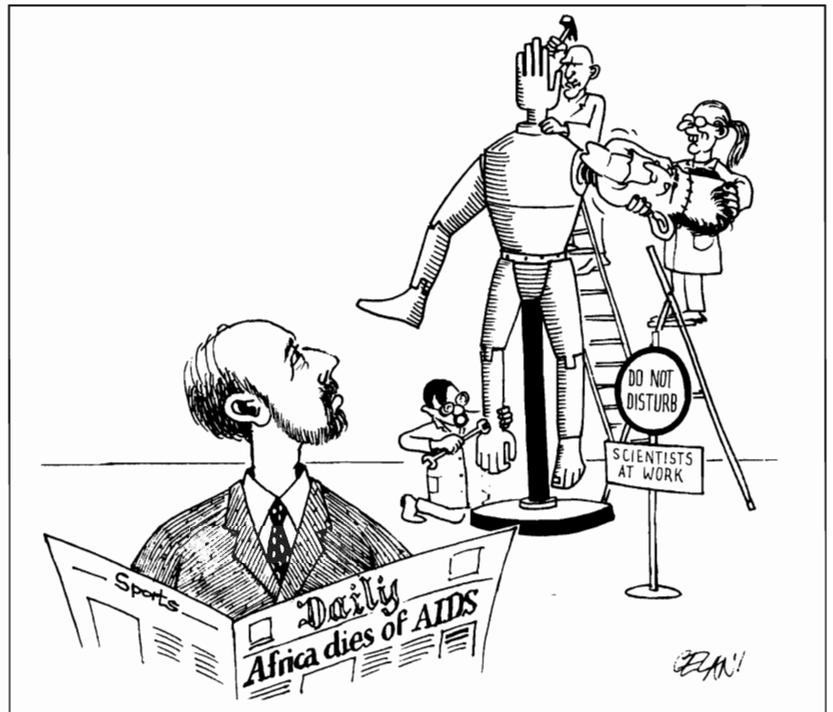
# EIR SPECIAL REPORT

## THE 'NEW ECONOMY' IS DOOMED

### The Fraud of the Information Society

The Group of Eight heads of state, meeting in Okinawa in July 2000, proclaimed as its major accomplishment, the establishment of a task force aimed at giving the Third World access to the "Information Revolution." In a parody of Marie Antoinette, they said of the world's poor: "Let them eat laptops!"

*EIR's* Special Report rips apart the fraud of the Information Society, and tells what must be done to restore economic health to nations where billions of people face hunger and death by infectious disease, while transport, power, and water infrastructure is collapsing.



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## Senate Finally Reorganizes Itself

The last act of the Senate before it left for the July 4 recess was to approve an organizing resolution that formalized the Democratic takeover of the Senate. The only real provision in it is the section that provides for a one-vote majority for the Democrats on all committees, except for the Ethics Committee, which remains evenly split between the two parties.

The Republicans failed to get any guarantees regarding judicial nominees. They settled for a letter from Judiciary Committee Chairman Pat Leahy (D-Vt.) and ranking member Orrin Hatch (R-Utah) that the committee would report all Supreme Court nominees to the floor whether or not they had committee approval. The letter simply affirmed a custom that has been practiced for 120 years, nothing more.

The debate on judicial nominees is not over, however. The flap started by Charles Schumer (D-N.Y.) over consideration of the ideology of nominees, carried over into the Sunday morning talk shows on July 1. Schumer, on NBC News' "Meet the Press," clarified his view that he didn't think that ideology should be the sole determining factor. He reminded host Tim Russert that as a candidate, President Bush had said that he would appoint judges that are "strict constructionists"—as opposed to "liberal activist judges." "Now, if it's good for the President to choose a judge of a certain philosophy," Schumer said, "why shouldn't it be appropriate for the Senate to ask questions about what that strict constructionism means and how it goes?"

On July 10, Majority Leader Tom Daschle (D-S.D.) promised that the Senate would move quickly on nominations now that organizational matters have been settled. Leahy announced the same day that he wanted

to move quickly on the nomination of Robert Mueller to be director of the FBI. "We will move to expedite this, even if I have to set aside some other things," he said.

## Conrad Blasts Bush's Budget Strategy

Kent Conrad (D-N.D.), the chairman of the Senate Budget Committee, blasted the Bush Administration on July 3, for taking only six months to put "our financial independence at risk." He said that because of the Bush tax cut, the originally projected \$92 billion budget surplus (not including Social Security or Medicare) for fiscal year 2001 will virtually disappear and a raid of \$17 billion on the Medicare trust fund is imminent. He added that the outlook for FY 2002 is even worse, with the Social Security trust fund up for grabs as well.

Conrad's remarks set off a slew of invective against him from the GOP. Columnist Robert Novak, a GOP insider, accused Conrad of preparing a "show trial" for July 12, when Office of Management and Budget Director Mitch Daniels is slated to appear before the Budget Committee. Daniels accused Conrad of practicing "medieval economics." In response, Conrad asserted, on the Senate floor on July 9, "I do have a very serious interest in where we find ourselves after the fiscal policy that the President proposed has been adopted in the Congress, because I think it has created serious problems."

Typical of the GOP argument are remarks by Vice President Dick Cheney after meeting with the Senate GOP Caucus on July 10. He claimed that without the tax cut, there would be less economic activity, a smaller surplus, "and the overall set of circumstances

would be much more difficult." He said that the tax rebate checks that are starting to go out this month are "the best-timed dose of fiscal medicine the economy's ever received."

## Bush Suffers Setbacks On Spending Bills

The House began work on the 13 annual spending bills on June 26, passing the Transportation Appropriations Act by a vote of 426-1. Two days later, the House passed the Energy and Water Development Appropriations bill by a vote of 405-15. The House also began work on the Agriculture spending bill before it left for the July 4 recess.

Passage of the two bills did not come without fireworks. An amendment to prohibit funding for the processing of applications for Mexican trucks to operate in the United States beyond the border area, sponsored by Martin Sabo (D-Minn.), was added to the bill by a vote of 285-143. Sabo's amendment was precipitated by the Bush Administration's announcement last January that all restrictions on Mexican trucks operating in the United States will be lifted on Jan. 1, 2002. This is to happen despite, as Martin Frost (D-Tex.) said, "clear evidence that many are unsafe for our highways." Opponents of the Sabo amendment argued that it was a violation of North American Free Trade Agreement (NAFTA) rules. Whereas Sabo admitted that this might, indeed, be true, David Obey (D-Wisc.) rejoined, "NAFTA is a trade pact. It is not a suicide pact."

The sparks continued over an amendment to the Energy and Water Development bill sponsored by Minority Whip David Bonior (D-Mich.) to shut down oil and gas drilling in the Great Lakes. Bonior warned that

continued slant drilling under the Great Lakes risked contaminating the drinking water supply of communities along the lake shores which could take "as much as 500 years to flush out." His amendment passed by a vote of 265-157. Great Lakes drilling is not part of the Bush Administration's energy policy, but the vote may have implications for drilling in the Alaska National Wildlife Refuge and in the Gulf of Mexico.

## **Rumsfeld Faces Hard Questions on DOD Budget**

Secretary of Defense Donald Rumsfeld was put on the defensive on June 28, when he appeared before the House and Senate Armed Services Committees to explain the Defense Department's amended fiscal year 2002 budget. In particular, members of the Senate committee from Kansas and Georgia were angry about the Air Force's decision, announced only the day before, to reduce the B-1 bomber fleet from 93 to 60 planes, because this would mean closing down B-1 operations at bases in those two states, as well as in Idaho. Sen. Pat Roberts (R-Kan.) vowed to make every effort to stop the movement of B-1 aircraft until both he and Sen. Max Cleland (D-Ga.) are confident "that this decision fits into our national defense strategy" and "has had the proper review."

In the House, both parties were skeptical that the proposed budget will address the readiness shortfalls that the Bush Administration has promised to rectify. Charles Taylor (R-Miss.) told Rumsfeld, "I deeply regret that you were not given the opportunity to tell . . . Congress of the hundreds of billions, if not trillions that our Department of Defense is going to need in the next ten years, prior to the tax vote."

Rumsfeld acknowledged the underlying budget tension. When Sen. John Warner (R-Va.) asked him where he was "going to get the money" for military transformation, which the Joint Chiefs of Staff has estimated to cost \$50-100 billion over the next five years, he said that, in addition to generating savings and making trade-offs within the DOD, there's a third way, and that way is if "there's a crisis." If there were a war, then defense spending would rise from the current 3% to 8-10% of GNP, "and we could afford it just fine."

## **Campaign Finance Reform Nears House Debate**

On June 28, Chris Shays (R-Conn.) and Marty Meehan (D-Mass.) announced a new strategy for passing campaign finance reform in the House. They introduced what is essentially the bill passed by the Senate earlier this year, including a ban on soft money. The strategy is to pass a bill as close as possible to that of the Senate, to avoid a conference committee. Meehan told reporters, "The champions of the soft money system have made it clear that a conference committee is the preferred method for killing reform."

To kill reform, the House GOP leadership is backing a bill sponsored by Bob Ney (R-Ohio), chairman of the House Administration Committee, which slightly restricts soft money contributions to parties, but is otherwise much weaker than the Shays-Meehan bill. On CBS News' "Face the Nation" on July 1, House Speaker Dennis Hastert (R-Ill.) said that the parties need soft money for voter registration drives and candidate recruitment efforts.

The GOP bill is apparently designed to pry the Congressional Black

Caucus away from the Shays-Meehan bill. The Senate bill, sponsored by John McCain (R-Ariz.) and Russell Feingold (D-Wisc.), increases the hard money contribution limit to candidates from \$1,000 to \$2,000. Members of the Black Caucus are concerned that this limit increase hurts candidates in poor districts. The supporters of Shays-Meehan have indicated that they may support a compromise that provides for a \$1,000 contribution limit for House candidates and a \$2,000 limit for Senate candidates.

## **Defense Supplemental Taken Up by Senate**

On July 10, the Senate passed by a vote of 98-1 the \$6.5 billion fiscal year 2001 supplemental appropriations bill, \$5.54 billion of which goes to the Defense Department to cover health care, military pay and benefits, higher fuel costs, and increased flying hours, among other things. The non-defense portion of the bill includes \$300 million for the Low Income Home Energy Assistance Program, \$161 million for educational grants, \$100 million as part of an initial U.S. contribution to a global trust fund to fight AIDS and other epidemic diseases, \$92 million for the Coast Guard, and \$115.8 million to cover the costs of processing the tax-rebate checks.

Appropriations Committee Chairman Robert Byrd (D-W.V.) said that the bill was "not one dime above the President's request." He warned Senators that they would have to find offsets for the costs of their amendments to avoid an across-the-board cut in all discretionary funding. His remarks were intended to deflect GOP charges that it's Democratic spending that's making the budget surplus disappear.

# Bush Objects as Senate Finally Takes on HMOs

by Linda Everett

On June 29, after five years of Gingrichite Republican gridlock, the new Democratic Senate majority, joined by nine moderate Republicans, passed the “Bipartisan Patient Protection Act of 2001” in a 59-36 vote. The bill, sponsored by Ted Kennedy (D-Mass.), John McCain (R-Ariz.), and John Edwards (D-N.C.), provides 231 million insured Americans with basic protections against murderous policies of “managed health care” plans and health maintenance organizations (HMOs). Most important among these, are the right to independent review of a health plan’s denial or delay of needed medical treatment; and, if necessary, the right to sue that plan in state and Federal court if the denial of treatment results in injury or death of the patient.

Despite the clear unravelling of the straitjacket Republican discipline of Trent Lott, Tom DeLay, et al., President George W. Bush now has vowed to protect HMOs by vetoing the act, if it passes the House. Bush lashed out at the bill July 9, saying it is “encouraging frivolous and junk lawsuits that will threaten the very existence of an important health-care policy in America.” In other words, making HMOs and managed-care plans legally accountable for their crime of denial of care, threatens their very existence!

A crucial economic component of Richard Nixon’s 1968-74 “Southern Strategy,” managed care has deregulated and plundered U.S. health care of \$1 trillion dollars annually, by denying treatment which government, employers, and families thought they had paid for. The resulting suffering, injury, and loss of human life, have been incalculable. Yet, the protection of managed care, with its underlying insurance interests, has remained Republican dogma. Now the ranks are breaking.

## Immunity for Murder?

The Patient Protection bill weathered two weeks of attacks by Republicans, who sought to amend it to allow patients harmed by health plans to file suits *only* in Federal court—where the backlog of cases several years long. Like President Bush, Senate Republicans wanted to severely limit financial awards—which would seriously hurt elderly or chronically ill patients and children, who cannot prove a financial loss from lost employment due to the HMO injury.

Sen. Phil Gramm’s (R-Tex.) amendment, which gave total immunity from liability for employers—even if their deci-

sion to deny coverage for a treatment ended in a death or injury of the patient—was averted by a compromise proposed by Olympia Snowe (R-Me.) and Mike DeWine (R-Ohio). Employers can appoint a “designated decision-maker” in the health plan, who would be liable for all medical decisions. Employers or larger companies that are self-insured, would be liable only if they made the decision that harmed or killed a patient.

In a 54-45 vote, a dangerous challenge from Don Nickles (R-Okla.) was defeated after Ted Kennedy showed it up as a major loophole that protects HMOs. For instance, HMOs often deny coverage for surgery for children born with cleft palate, because the HMO considers the surgery “cosmetic,” rather than medically necessary, even though the birth defect could lead to serious breathing and eating problems later on the child’s life. Similarly, John Kyl’s (R-Ariz.) amendment was defeated by 54-45: It would force independent reviewers of an HMO’s denial of care to base their decision on whether a particular treatment was needed, on the HMO’s own arbitrary definition of “medically necessary care.”

## Do Away With Managed Care

The Bipartisan Patient Protection Act of 2001 will now be taken up in the House by Greg Ganske (R-Iowa), John Dingell (D-Mich.), and Charles Norwood (R-Ga.), where it already has scores of Republican supporters. Unfortunately, an intransigent group of House Republicans will oppose the bill with the GOP’s treacherous “Patients’ Bill of Rights,” crafted by Ernie Fletcher (R-Ky.), Nancy Johnson (R-Conn.), Richard Burr (R-N.C.), and Colin Peterson (D-Minn.). Bush has made passage of this HMO protection bill his top priority for July.

In the teeth of President Bush’s opposition, more and more outrageous acts of looting by the HMO/managed-care “industry” are being exposed:

- Washington State infant Ian Malone, born with brain damage, was denied coverage for his care by his family’s HMO. The insurance company suggested that the Malones give up their son for adoption, so his care would be paid for by taxpayers!
- A Colorado HMO that refused coverage of treatment for a critically ill infant, told the family to force Medicaid, to pay for their son’s care.
- In several other cases, managed care organizations (MCOs) that refused to provide mental health treatment and inpatient care for suicidal adolescents, told the children’s families to have their teens arrested, so that the state would pay for treatment. In all cases, the families had paid the MCOs for the treatment needed, but the insurers treated the children the same as Hitler did with Germany’s *Ausschusskinder*, or “garbage children,” to be eliminated as cheaply as possible.

Thus, Democratic Presidential pre-candidate Lyndon H. LaRouche, Jr. has insisted that the “managed-care” paradigms must be obliterated, and that the nation return to the general welfare principle in health care.

# LaRouche To Address: How To Survive The Onrushing Global Financial Crash

*LaRouche in 2004, Lyndon H. LaRouche, Jr.'s campaign committee for the Democratic Presidential nomination, released the following statement on July 11:*

Lyndon LaRouche, the only U.S. economist who has been consistently right in each and every one of his published forecasts over more than 30 years, will once again deliver a history-shaping address to a Washington, D.C. audience, on July 24, 2001 at 1 p.m., which will be carried live internationally on the Internet at [www.larouchein2004.com](http://www.larouchein2004.com). LaRouche is also known worldwide as the Founder and Contributing Editor of the weekly news magazine *Executive Intelligence Review*, and is the first declared candidate for the 2004 Democratic Party Presidential nomination. The July 24 event will be LaRouche's fifth post-Nov. 7, 2000 election webcast, and will address the urgent measures that must be taken by governments around the world, to avert the onrushing financial, monetary, and economic collapse.

Since LaRouche's Sept. 3, 1999 dialogue with civil rights and labor leaders, inaugurating his 2000 Presidential campaign, we have learned that many millions of U.S. citizens, who ignored or rejected LaRouche's earlier warnings, have lost, in total, trillions of dollars, in the financial crisis which he had warned was inevitable should either Bush or Gore be elected. Many 401(k) investors and others, who could ill-afford to lose their savings, have been hit cruelly by their failure to support LaRouche's efforts to mobilize the Democratic Party against this now wildly accelerating crisis.

Nothing can prevent a total collapse of the present world financial system. As LaRouche testified to the Russian State Duma on June 29, 2001, the collapse is inevitable, but the

world economy can survive and grow, if leading nations come to their senses, and launch a new world monetary system right now.

Now, when the world is in the process of breaking in disgust from the present policies of the Bush Administration, the moment is ripe for action by those Democratic Party and other U.S. leaders, who will have, hopefully by now, learned the lesson from former Vice-President Al Gore's failure to win the Electoral College, by failing to win the Arkansas vote. Al Gore and the Democratic National Committee's stealing the certified votes cast by more than 53,000 LaRouche voters in the Arkansas Democratic Presidential primary election, cost Gore the Electoral College, which would have won him the Presidency hands down. It was there, in Arkansas—not in Florida—that Gore sent himself down to defeat, and sent Bush to the White House.

One would hope that Democratic Party leaders would not repeat that kind of mistake again.

The present world financial system is coming down fast. The world is ready to welcome a fundamental correction to the pitifully discredited U.S. policies of Federal Reserve Chairman Alan Greenspan and his like.

LaRouche spelled out his own approach to solving this grave crisis: "The only thing that can save this nation, and your family, from the worst depression in all modern history, is agreement among nations to put the present world financial and monetary system through emergency measures of bankruptcy reorganization. This means returning to the proven principles of the system of fixed exchange rates and strict regulation of the 1945-1964 relationship between the U.S. and its partners in Europe, the Americas, and Asia. In

other words: Dump what has failed, and go back, quickly, to what worked so well before."

All responsible Democrats and Republicans will wish to discuss these needed measures now. The July 24 LaRouche webcast is intended to serve as an opportunity for those leading Democratic and Republican political figures, representatives of the Washington diplomatic community, and citizen-activists, to join together in taking up those vital issues in a public dialogue with the one leading American statesman and political-economist who has accurately defined the nature of the unfolding crisis and presented the urgently needed policy solutions.



*Lyndon LaRouche at a Moscow press conference, June 28.*

# *The Argentina Blowout: 'Planet Risk'*

It was clear from the outset, as *EIR* told its readers in June, that the insane and illegal Argentine “international debt swap”—simply a cosmetic disguise on an unavoidable default—could not work. But the fact that this “long-term solution” crumbled within weeks, has a significance of its own. As of Friday the 13th of July, the ongoing meltdown of Argentine debt, and the U.S. Federal Reserve’s frantic pumping of \$10 billion or more in new issues of money into the U.S. banks and stock markets, make it obvious that a breaking point has been reached in the global financial collapse.

None of the new International Monetary Fund (IMF) plans for crisis, emergency, many-billion dollar standby credits for Argentina’s disintegrating credit markets, have the slightest chance of working—any more than the \$40 billion “financial armor” supposedly wrapped around that same explosion only a year ago. What we are witnessing in the actions of Argentina’s Rasputin, Domingo Cavallo, and his bosses at Morgan Stanley and the IMF, is a murderous desperation, a last savaging of Argentina’s population which only increases the pace of the collapse, and will soon end with Cavallo’s downfall.

Grotesquely, Cavallo’s own statement on July 13, while issuing murderous and futile decrees to cut the Argentine people’s means of existence in every way he could think of, was “the financial system to the end.” Like a Leporello, he mirrored exactly the desperate condition of his masters on Wall Street. The U.S. markets have reached the stage where they only manage moments of euphoria responding to the largest layoff announcements and Federal Reserve financial infusions at the same time.

The covert panic of Fed Chairman Greenspan’s frantic money-printing operations during the week of Friday the 13th, point to the truth that what is involved in the overt panic over an Argentine default, is no mere “country risk.” It is a “planet risk.” This Argentina debt blowout is a fuse burning towards an explosion of one trillion dollars worth of international debt. The three

largest countries of Ibero-America—Argentina, Brazil, and Mexico—are now moving at an accelerating pace toward a simultaneous financial blowout. The foreign obligations alone of these three countries—not including the domestic debt on which interest rates are now gyrating upwards—add up to more than \$900 billion. This is held in large part by the biggest U.S. banks and financial corporations, but it is a detonator capable of huge international impact.

Beyond that looms the vast mountain of international debt derivatives, waiting to go into reverse-leverage collapse. The derivatives bubble is almost as numerous in trillions, as the Ibero-American debt is in billions, and the largest portion of the derivatives bubble is those many millions of derivatives contracts betting on—bond interest rates.

At this breaking point, anyone who is not aggressively pushing for implementation of Lyndon LaRouche’s proposals for the general bankruptcy reorganization of the world financial system, is not in the real world. The IMF’s latest pronouncements on Argentina, if done, would bring to well over \$60 billion, the amount of emergency credits thrown at a single debtor nation within one year’s time—attempting to prevent a large default which is known to be occurring anyway. Such a *public* definition of what is meant by “the financial system to the end,” not to mention what is being done in behind-the-scenes panic by Greenspan, shows a system that is finished.

Had LaRouche’s “Operation Juárez” debt reorganization policy for Ibero-America been implemented 20 years ago, the horrific sights of decline, suffering, and insolvency in the Ibero-American economies would not be seen today. Now all the globalized markets are operating in the same way, to enforce the same death and suffering, and yet are collapsing. The post-1971, post-Bretton Woods system is passing from controlled to uncontrolled disintegration, and LaRouche’s New Bretton Woods debt reorganization idea is the only policy which can stop it.

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