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THIS WEEK YOU NEED TO KNOW

LaRouche Assessment: — Late-Summer Financial Blowout — Means Danger of General War

This week, travelling to Sao Paolo, Brazil for a series of high-level meetings, Lyndon LaRouche offered his assessment that the world is facing, in the immediate weeks ahead, a period of increased political and financial turbulence, in which it will become impossible to manage the financial/economic system. LaRouche expects that this period of turbulence cannot go much beyond late August, September, or, at the latest, October—and that therefore, we will likely be seeing some horrible military adventure by that time.

The Anglo-American financial establishment has exhausted all financial and monetary policy options, and they know that they can't maintain the fakery around the exploding economic system much longer.

Driving this process is the fact that the world is in a new phase of the global financial bubble, a phase that began in 2000, wherein the cost of rolling over the debt, far exceeds the debt itself—exactly as was the case in Weimar Germany in 1923, the period of astronomical hyperinflation and the pauperization of an entire people, within a matter of months.

Because of this crisis, and because the financial oligarchy knows the system is a goner, LaRouche evaluates that the world can expect to confront some hair-raising military deployment by the period September-October. Thus—despite what some commentators are saying about the U.S. attack on Iraq having been put off, or this or that war danger having been reduced—the logic of the situation is such that it demands military adventure; the logic of the situation is such, therefore, that we face the danger of generalized war by September. The financial system can't go on; it's going to blow out; and therefore, this step for war is what the oligarchy is going to have to do—whether or not they themselves realize it at this moment.

In this context, the policies that the International Monetary Fund is pushing—for example, for Argentina—are completely destructive; insane, murderous policies. The conditions the IMF is forcing upon Brazil and Argentina, to take two notable cases, are creating precisely that Weimar German type of hyperinflationary situation, wherein the amount of money that must be pumped in, to roll over the debt, is rising at a more rapid rate than can be maintained.

In the context of LaRouche's assessment, the *EIR* economics team has been reviewing the U.S. debt picture, and one thing jumps out: Just as LaRouche indicated, the United States is going into a major inflationary spiral, driven by skyrocketing debt and debt service. According to the 2001 data, the total U.S. indebtedness—government, corporate, and household—was \$31.2 trillion: \$7.16 trillion in government debt; \$16.3 trillion in corporate debt; and \$7.72 trillion in household debt. Corporate debt, led by financial institutions, rose at an incredible rate throughout the 1990s, while household debt rose steadily and sharply. This \$31.2 trillion in total U.S. indebtedness compares with the total GDP of the United States, for 2001, of just \$10 trillion! What's more, by the most conservative estimates, the \$31.2 trillion in U.S. debt would have required, at minimum, \$5.7 trillion in debt service payments. In other words, approximately 55% of the entire

U.S. GDP would have gone to debt service! This ballooning debt hits at the same time that the U.S. manufacturing sector is contracting, rapidly. Figures released this week by the Commerce Department showed an 7.1% decline in manufacturing sales, compared to the same quarter in 2001, with the biggest hit coming in the durable goods sector.

And what next, when the hyperinflationary debt bubble bursts?

The U.S. mess is soon going to be made much worse by the financial and monetary explosions in Ibero-America. The *Wall Street Journal* was forced to admit, in a banner headline June 11, that "Brazil Faces a Threat of Financial Contagion," spreading from neighboring Argentina. The headline was an understatement, with the risk premium on Brazil's government bonds now driving them above 20% yields, and with OAS Secretary General Gaviria and the head of the Economic Committee on Latin America and the Caribbean of the UN, Jose Antonio Ocampo, both warning that the Argentine contagion has *already* spread to Uruguay, Paraguay, Bolivia, Brazil, and Chile.

By the end of last week, the major stock markets of the world were in disastrous straits, at the levels of last October, just after the Sept. 11 attacks. The Dow Jones index and Nasdaq are at that level; the London FTSE hit similar levels, with its technology index dropping to "another" all-time low—down 84% drop from its bubble highs. Likewise in Germany, where the Kirch holding company completed the biggest bankruptcy in Germany since World War II.

Last Friday's financial events capped a week of disasters the "magicians" can't cover up. The U.S. dollar hit a 17-month low against the euro; "consumer confidence" in June saw its biggest drop since Sept. 11. Ironically, Attorney General John Ashcroft, mouthing off in Moscow about the arrest of the alleged "dirty bomber," Jose Padilla, was chastised by others in the Bush Administration for driving down the stock market by fomenting panic fears of new terrorist attacks; Ashcroft's panic-mongering cancelled frantic efforts by the "Plunge Protection Team" to keep the stock market afloat.

And against this backdrop of financial frenzy and chaos, the danger of generalized war grows greater.

Through the diplomatic efforts of the U.S., Russia, and China, the potential flashpoint between India and Pakistan—threatening the first use of nuclear weapons in a live battlefield situation since Hiroshima—was postponed. If the crisis doesn't re-erupt before the upcoming monsoon season (when war operations become almost impossible), it will be merely deferred, to precisely the period LaRouche has projected: September-October.

War Focus: The Mideast

But, with that postponement, attention now shifts back to the real focus of threat of war—once again, the Mideast.

While pundits speculate about the contents of President Bush's upcoming speech, in which he is to lay out his vision of how to achieve the solution of two states, Israel and Palestine, living side by side in peace—the Israelis are moving to provoke a general war in the region.

Thus, as the June 15 *Washington Post* reports, Israel is arming three newly acquired diesel submarines with newly designed cruise missiles capable of carrying nuclear warheads, giving Israel, for the first time, a triad of land-, sea-, and air-based nuclear weapons.

Israel is openly targetting Iran and Iraq, two of the states named by President Bush in January as part of the "axis of evil." Last month Israel launched a regional military surveillance satellite giving it an unimpeded view of military targets in Syria, Iran, and Iraq.

Meantime, the *Post* also reports that during his recent trip to Washington, Israeli Prime Minister Ariel Sharon told President Bush that Israel might hit Lebanon and Syria, if rocket attacks from Lebanon target northern Israel. Sharon gave the President reports of a weapons buildup along Lebanon's border with Israel—a buildup by Hezbollah that augurs a "second front." The danger is very great that Israel might move into Lebanon and perhaps Syria, spelling an end to any U.S. efforts to organize a political dialogue between Israel and the Palestinians, and threatening to explode into allout, generalized warfare.

Iraq Attack Is On

Second, sources in the media and sources in the Bush Administration say that the President has either signed off on, or is very close to signing off on, an operation against Iraq, to be conducted before the end of this year—with all the attendant catastrophic consequences.

It is no wonder that political circles all over the globe, as in Brazil and the Persian Gulf, are turning to Lyndon LaRouche for the kind of leadership that only he can provide in this crisis—a crisis that LaRouche alone has been forecasting for the past decades. Focus on the financial and monetary blowout, and the war danger becomes clear. The desperation of the Anglo-American financial oligarchy is at the point where they represent the greatest source of the war danger—far beyond Saddam Hussein or Osama bin Laden.

FLASH!

Brazil Finds Best Message — To the United States: LaRouche

In the wake of their trip to the United Arab Emirates, U.S. Presidential pre-candidate Lyndon LaRouche and his wife, Helga Zepp LaRouche, visited Brazil in the second week of June, invited by the São Paulo City Council, so LaRouche could be made an honorary citizen of the city. Other Brazilian institutions also jumped at the opportunity to hold first-hand discussions with the American statesman respected worldwide as a true American patriot, who dares stand up for all mankind.

Their trip proved timely. As they arrived, Brazil's financial house of cards began collapsing upon itself, repeating, like a horror movie re-run, the essential features of the implosion of the financial system of Brazil's neighbor Argentina, just a year ago.

Brazil, with over 40% of all the population of Ibero-America and almost 40% of the South America's territory, is one of the few countries of Ibero-America which maintains some shred of sovereignty, after 20 years of International Monetary Fund destruction. Although severely weakened, thus far Brazil has managed to hold onto a significant independent scientific and technological capability. Its recent announcement that it will begin commercial-scale production of enriched uranium in July—only the seventh country with this capability—reminded the world of Brazilians' skills. The advanced centrifuge technology it will employ for enrichment was developed as a spin-off of the Brazilian Navy's ongoing work in building a nuclear submarine with national technology.

For years, Brazilian leaders had, by and large, bought into the lie that there could be a seat for Brazil at globalization's table. Other nations might go down, but they would survive. That assumption has crumbled under the onslaught of the global breakdown crisis. In the recent period, horrified Brazilian leaders realized that the United States and the IMF *intend* to let Argentina disintegrate and die. That shock, combined with anger over the Bush Administration's imperial "unilateralism" globally, has shredded the traditional pro-American allegiance of the Brazilian elite.

Accordingly, members of Brazil's elite decided to send the most pointed message possible to the United States, of what they consider acceptable behavior from a global power of U.S. history and tradition: they invited LaRouche as the representative of the true America.

Honorary São Paulo Citizen

Being awarded honorary citizenship of São Paulo is no small thing. The city is a major power center within Brazil, and, with 18 million inhabitants, the third largest city in the world. The decision to name LaRouche an honorary citizen was motivated by Dr. Havanir Nimtz, the principal representative on the City Council of the PRONA Party, founded by Dr. Eneas Carneiro, one of Brazil's preeminent cardiologists. Dr. Eneas has run several times for President, distinguishing himself as an outspoken opponent of globalization. While PRONA does not hold a majority on the City Council, Dr. Havanir (herself a dermatologist) wields the authority of having won her Council seat with the second largest number of votes of any candidate in São Paulo's last elections.

LaRouche and his wife, accompanied by Dr. Eneas, visited the City Council while it met in plenary session on June 12. Councilwoman Havanir requested a motion of order interrupting the plenary session, so she could introduce the distinguished guests. Public television began filming, and cameras clicked, as Dr. Eneas presented LaRouche.

Then a special Council session was convoked to award LaRouche his citizenship. The session was held with great pomp and circumstance in an auditorium in the City Council building. Those introduced on the podium included Dr. Eneas, the LaRouches, Dr. Havanir, and *EIR* correspondent Lorenzo Carrasco. Before the proceedings began, a military band played the national anthem of Brazil, and the U.S. national anthem was sung. Present was an overflow crowd of more than 250, including many PRONA members who came from around the country to meet LaRouche.

We are living in a very perilous period of history, LaRouche told those present, in a brief address. He laid out for them the history of the United States, as a battle between those—like himself—who are in the tradition of its founder, Benjamin Franklin; and the Tories, allied to this day with the British Empire. The U.S. has a crucial role to play globally, LaRouche said, with Russia, the Eurasian countries, with other nations. But its relations with the Americas will be decisive. There is no way that the U.S. will come out of this crisis today, without the founding of a community of principle among the nations of the Americas; and, he said, my hope is that my trip to Brazil will set that in motion. Brazil has a particular role to play, as one of the few countries which still has some sovereignty. I hope, LaRouche said, by my coming to Brazil, that we can open such a dialogue with all the nations of the Americas.

Dr. Eneas told those attending that they need to understand who *is* this Lyndon LaRouche. I recently read an article by LaRouche on the catenary, he said. Now, how many Presidential candidates even know what a catenary is? Dr. Eneas described a catenary, explaining that it proves the way in which nature searches for order with the least action possible. Which Presidential candidate would have the slightest idea, he added, of what a hyperbolic function is? LaRouche also talks about ancient Greece as if he had been there himself, sitting by Socrates' side in the *Symposium*. What happens when you read LaRouche, is you receive a refreshing bath of science and art.

Most important, is LaRouche's concern for humanity. These are the ideas which PRONA defends too, Dr. Eneas said. Compare LaRouche's attack on empires, to what President George Bush is saying! The system is destroying itself, and it will be no different for Brazil. There is only one solution: Rupture! Break with the system! Brazil is an important country in the world. It must say, "Enough!" If this system is not stopped, as LaRouche says, there will be a New Dark Age, he concluded.

By this action here, Helga Zepp LaRouche told those present, you have sent the most powerful possible message to the world, about which of the two Americas the world wants. If there is to be hope for the world, the United States has to be

brought back to its senses.

A Replay of Argentina, Doubled

LaRouche emphasized in each of his presentations while in Brazil, that there is *no* solution within the existing system: not one. Not for the United States. Not for Brazil. You must help replace the system, he told people, because both our nations are heading straight towards a blowout no different than what collapsed Argentina. Perhaps next week, perhaps in some months, but it will occur soon.

Brazil is already unravelling financially. The week before LaRouche arrived, Brazil's country risk—the amount over the interest rate of U.S. Treasury bills which "the market" (read: J.P. Morgan Chase) requires a country to offer on its government bonds—rose to over 1,000. At the same time, J.P. Morgan issued a recommendation to its clients to sell any Brazilian debt they hold. On June 5, Moody's downgraded Brazil's foreign currency bond rating, declaring (correctly, for once) that Brazil will have difficulty paying its debts, no matter who wins the October 2002 Presidential election, because of the great amount of debt, foreign and domestic, coming due in 2002 and 2003.

By June 13, Brazil's country risk had risen to 1,300, behind only Argentina and Nigeria. That means that Brazil would have to offer more than 18% interest, to sell any paper. At that level, neither the government nor private companies can afford to refinance their debt.

The world financial markets, Argentine daily *Clarín* wrote, are "recreating the mechanisms which ended up crushing Argentina." The difference is that Brazil's foreign obligations, at \$500 billion according to *EIR*'s estimates, are more than double Argentina's. Because of the nature of Brazil's debt bubble, should capital flee Brazil and creditors refuse to roll over debt on any reasonable terms when it comes due—as is now occurring—Brazil's debt pyramid will implode even faster than Argentina's did.

At the end of April, Brazil's total "domestic" public debt was reported to be 633 billion reals (more than \$243 billion, at 2.6 to the dollar), about \$60 billion of which comes due over the next 12 months. This is domestic public debt, and does not include the public foreign debt, nor corporate foreign debts, nor foreign stock market ownership, for which investors could demand dollars at a moment's notice.

Some 80% of public "domestic" debt is indexed either to dollars, or to the going interest rate. Since much of Brazil's debt is dollarized, but its currency floats, every devaluation raises the debt by the same proportion. Thus, for example, *O Estado de São Paulo* reported on June 10 that Brazil's government debt increased by R\$14 billion—around \$5.3 billion in U.S. dollars—in the first week of June alone, because of the 4.6% devaluation in Brazil's currency, the real, that week.

Yet, to get investors to buy government paper, the Central Bank has been selling more dollar-linked bonds, at shorter maturities, at higher interest rates. Once again, international creditors and the government are attempting to resolve the fact that Brazil's debts have far outstripped its ability to pay, by adding to the debt. Another \$10-billion loan from the IMF was nervously announced as LaRouche was in Brazil.

Sovereignty Is Changing the Rules

LaRouche's first forum in Brazil was held in the auditorium of the Latin American Parliament in São Paulo on June 11, sponsored jointly by *EIR* and the Alumni Association of the Superior War College (ADESG). Although his theme was titled "The Global Systemic Crisis and the End of 'Free Trade,'" LaRouche covered the broadest range of subjects in his three and one-half hours of discussion with the 120 people who attended.

Those present were primarily very high-level representatives of the São Paulo elite. Leaders of business and agricultural associations, and state-sector companies, lawyers, professors, retired military officers from Army, Navy, and Air Force, and some students were among those in the audience.

The ADESG invited two people to comment upon LaRouche's presentation, each a recognized intellectual leader of national stature, representing different political outlooks. As such, they spoke not only for themselves, but as representatives of the two power groupings debating what Brazil must do in this conjunctural crisis. One was General Oliva, a former director of the Superior War College, and a respected intellectual within and outside the military, who is known as an opponent of globalization. The other was Congressman Marcos Cintra, a prominent ideologue for the followers of British liberal economics in the country. He currently heads the Congressional committee which deals with the negotiations for the Free Trade Agreement of the Americas (FTAA).

LaRouche laid out the crisis facing the world, and addressed the issue of how, in the current era, to extend the notion of a military defense to the broader concept of a strategic defense of the nation-state as a whole. Those who fear the power of the IMF and the United States, seek solutions within the rules. I tell you: There is no solution within the rules, he said. There is no solution within a system whose axioms have proven to be wrong. We have to change the rules. Can we not change the rules? Are we not human?

Sovereignty, he said, is the power to deliberate to change the rules. The problem is one of leadership. People are technically competent, but they are not good leaders. It is a moral problem. They are not acting in correspondence with what it is to be human. The world is being destroyed by the rules. We must inspire people to change them.

In response to LaRouche's presentation, General Oliva reviewed how Brazil brought about economic growth during the 1965-83 military government, by emphasizing infrastructural investments. But that was in a world in which there still was stability in the global economy, and the United States wanted to help Brazil, he said. Now, because we believed in the IMF rules, we have no national patrimony left. He said that he, too, admires Alexander Hamilton and Franklin Delano Roosevelt, and he did not disagree with anything LaRouche had said.

That could not be said of Congressman Cintra, who defended economic liberalism as a system still functioning. Cintra, however, said that he likes to debate people with intelligence, prefers to debate the forest rather than the trees, and sees that LaRouche has a strategic vision, which encompasses everything. Cintra called the forum one of the most provocative conferences he had ever attended, and said LaRouche's ideas enrich our reflections.

The discussion which ensued was much longer and, at its conclusion, the head of the ADESG in São Paulo, Adauto Rocchetto, thanked LaRouche warmly for speaking to them so directly, especially recognizing the fact that what he is saying, as an American citizen and an American politician, goes against what his government stands for and is doing around the world.

In another presentation to a private luncheon organized by one of São Paulo's leading business associations, LaRouche again returned to the question of leadership. Unless leadership is provided in this time of crisis, he told them, Brazil could face a July 14, 1789—its own Jacobin revolution. This is what oligarchs such as the Anglo-French agent Teddy Goldsmith are organizing, using tools like the World Social Forum founded in Pôrto Alegre, Brazil, in 2001. The French Revolution resulted from a *lack of leadership* of those who opposed it, he emphasized.

The only way the World Social Forum and the new Jacobins get away with calling themselves "anti-globalization," is because of the destruction that we have allowed to occur under globalization.

These neo-Jacobins are not against globalization, LaRouche insisted. *I* am the leadership against globalization, he said. *I* am for the nation-state. LaRouche urged the group to join him in organizing more discussions, more dialogue, more "conspiracy." Conspiracies, he told them, are people getting together to discuss what they agree on, what they disagree on, and what to do about it.

In his many meetings, LaRouche made clear he was addressing the entire hemisphere through his dialogue with Brazilians. As *EIR* went to press June 14, LaRouche was addressing the fifth in a series of seminars, "Brazil-Argentina: Hour of Truth," organized jointly by his associates in the Ibero-American Solidarity Movement (MSIA) and the Ibero-American Integration and Identity Movement (MINEII) founded by friends of Argentine Colonel Mohammed Alí Seineldín. The seminar, held in São Paulo before a full house, opened with an exchange of ideas between LaRouche and Col. Seineldín, hooked up by telephone from military prison in Argentina.

—Gretchen Small

ECONOMICS NEWS DIGEST

U.S. Debt Rollover Threatens Weimar-Style Hyperinflation

The increasing amount of U.S. debt, and thus of debt that requires rollover, is creating the eruption of a hyperinflation of the type that ravaged Weimar Germany, from March through November 1923.

U.S. debt has grown, as businesses borrow for leveraged buyouts, or just to survive; and households borrow through credit cards, or for car loans, home purchases, and so forth. One can see the tendency in the increase in indebtedness of the major categories of U.S. debt.

Table1	U.S. Debt,by category andtotal			(\$ Trillions)
Year	Household Debt (1)	Gov't Debt (2)	Business Debt (3)	Total U.S. Debt
1950	0.07	0.28	0.10	0.45
1960	0.22	0.36	0.23	0.81
1965	0.34	0.43	0.37	1.13
1970	0.46	0.53	0.64	1.63
1975	0.74	0.76	1.12	2.62
1980	1.40	1.25	2.05	4.71
1985	2.29	2.50	3.84	8.62
1990	3.63	4.20	6.35	14.18
1995	4.90	5.99	8.37	19.26
2000	7.11	6.91	15.00	29.02
2001	7.72	7.16	16.30	31.12

(1) mortgage, consumer installment, credit card debt

(2) debt of Federal, state, and local governments

(3) non-financial company, and financial company debt

source: Federal Reserve Board of Governors, "Flow of Funds Accounts"; OMB; *EIR*.

The debt explosion is concentrated in household and business debt, as opposed to government debt. Notice that household debt, which was \$1 trillion less than government debt in 1995, has leapt ahead, and is now more than \$500 billion greater than government debt. The business debt consists of two types: that of non-financial companies, like GM and IBM, and farms; and that of financial companies—banks, insurance companies, Fannie Mae, etc. The debt of financial companies has zoomed upward. From 1995 to 2001, total business doubled, a phenomenal rate of growth.

Adding U.S. domestic debt—\$31.12 trillion—plus foreign debt—approximately \$2 trillion—we get a total of \$33 trillion. While Brazil has approximately \$550 billion in debt and outstanding dollar obligations, which by itself is large enough to blow out the world financial system, U.S. debt, at \$33 trillion, dwarfs all others.

For the last four years, U.S. total debt has been growing at the rate of \$2.2 trillion per year, or almost \$200 billion per month.

Table 2 Dollar Rise in Debt,for Each Dollar Rise in Gross Domestic Product

1970s	\$1.75
1980s	\$2.99
1990s	\$3.60
2000-01	\$4.91

source: Federal Reserve Board of Governors, "Flow of Funds Accounts"; OMB; Department of Commerce; *EIR*.

This shows the ratio of the increment in the dollar volume of debt, to the increment in the dollar size of GDP, for each decade (on average); except for the last figure, which is for one year.

Annual Debt Service on U.S. Debt Now Nearly \$6 Trillion

EIR has determined that the debt service on America's debt is approximately \$5.7 trillion per year. The debt service consists of the part of the principal that must be paid, plus the interest charge. Most of the \$31.12 trillion in U.S. domestic debt, is in the form of either bonds, or bank loans. The approximate average maturity of the totality of bonds, is 7.5 years. Bank loans have, on average, a maturity of 2.5 to three years. Based on this, on \$31.12 trillion in total debt, approximately \$4.0 to \$4.2 trillion in principal must be repaid each year.

EIR assumed a 5% interest rate on this debt. This is very conservative, as the prime lending rate is now 5.5%, and some of this debt was undertaken at 7-8%, and some at above 10%. On \$31.12 trillion, a 5% interest charge is \$1.55 trillion.

Thus, the total U.S. debt service is, conservatively, \$5.7 trillion, which is equivalent to 55% of U.S. 2001 GDP of \$10.21 trillion.

This presents a paradox: How does the U.S. pay \$5.7 trillion in debt service per annum? The U.S. can, and does, loot the population's living standards, plus plant and equipment. Next, it can also roll over a portion of the debt, through refinancing and other mechanisms. It can also monetize a portion of this debt, or take equivalent steps.

However, the increasing debt service (and the debt) is so huge, that there is no response to this paradox that can be undertaken within the geometry that existed even in the 1980s, when the economy was in better shape, let alone today. This crosses the boundary condition in which all attempts to hold up the values of the financial aggregates, and its mass of

debts, derivatives, etc., produces a hyperinflationary shock front.

Flagship *Financial Times* Makes It Official: Recovery Is 'Fairy Story'

The editors of London's august *Financial Times* finally admitted what our readers have known for months: The so-called U.S. "recovery" never happened. Under the headline "The Recovery Myth," the *FT*'s Martin Wolf, in a signed lead editorial June 6, writes that "the world economy is coping with the aftermath of two huge asset-price bubbles: the Japanese of the 1980s; and the U.S.-led worldwide bubble of the second half of the 1990s." According to "conventional wisdom," the worst part of the adjustment to the blowout of the bubbles is now over, and the U.S. is about to lead the world into a new era of prosperity. This view, says Wolf, is "comfortable but false. In truth, the adjustment has barely begun." The recovery promise may turn out to be "no more than a fairy story for frightened children."

Price/earnings ratios on global stock markets are still double the long-term average. At the same time, the U.S. economy is extremely vulnerable, the *FT* warns, especially, once the "gigantic net borrower from the rest of the world" faces "diminished willingness of foreigners to purchase U.S. assets." This could coincide with "further asset price adjustment" and "weakening household demand." As a consequence, "There may be brutal adjustments in the near future, with a vicious downward spiral in U.S. and world equity prices, higher long-term interest rates, an exodus of capital and dollar weakness. This would force a strong reduction in investment and consumption in the U.S. and an unpleasant adjustment on the rest of the world."

Samuelson: Foreboding of Unthinkable Crisis

Meanwhile, back in the United States, economist Robert Samuelson is thinking along the same lines as the *FT*'s Wolf. In his June 12 *Washington Post* column, Samuelson writes that the downgrading of Japan's bonds to credit-risk status, is a sign of the world's plunge into "huge and imponderable hazards," dangers that would have been unthinkable a decade ago.

Samuelson warns that "among economic elites, there's a foreboding that something—terrorism, corporate scandals, a dollar crisis, a stock market crash, a Japan crisis—is leading us to we know not where."

This foreboding "could become self-fulfilling if it paralyzes people and companies."

The Wall Street Police Blotter

With this issue, *EIW Economics Digest* introduces an occasional report on the latest crimes of Wall Street firms, which are increasingly filling newspaper pages, airwaves, and courtrooms around the country. We begin with the following:

Reading the business pages of any major U.S. newspaper has become like reading Wall Street's Police Blotter. But this is not merely corporate crime and corruption, it is systemic fraud that was used to create and maintain the bubble. Among the items on the docket, are criminal investigations of former executives at ImClone Systems and Tyco International, the trial of the Arthur Andersen accounting firm, and a pre-criminal investigation of Glaxo.

* **Samuel Waksal**, former CEO of biotech firm **ImClone Systems**, was arrested on June 12 by the FBI on a Federal criminal complaint of insider trading, charged with warning family members to sell company stock just before the Food and Drug Administration on Dec. 28 rejected ImClone's application to market Erbitux, an experimental cancer drug—which sent ImClone's stock price plummeting. In addition to the nine criminal counts of conspiracy, securities fraud, and perjury filed by the Justice Department, the Securities and Exchange Commission filed a civil complaint seeking to recover \$10 million that Waksal's father, Jack, and daughter, Aliza, made on the trades on Dec. 27 and 28. Waksal

allegedly learned from his brother on Dec. 26 that the Erbitux application would probably be rejected, then so informed family members, who sold the stock. Waksal, who had more than \$80 million in debt at the time of the alleged illegal trades, according to the FBI, attempted to sell \$5 million worth of his shares, but was blocked by brokers.

Waksal, freed on \$10-million bail, refused to testify on June 13 before Congress, citing his Fifth Amendment right against self-incrimination. The House Energy and Commerce Committee's investigations subcommittee, presented internal memos suggesting that both ImClone and its partner in developing the drug, **Bristol-Myers Squibb**, might have tried to minimize the seriousness of the FDA's concerns about Erbitux.

Home design and K-Mart schlock diva **Martha Stewart** is under investigation by Federal prosecutors, and reportedly by the New York Stock Exchange, to see if she had inside information from close friend Waksal when on Dec. 27 she sold her 3,928 **ImClone shares**, at \$58 per share. The NYSE denied that it is probing her transactions. Stewart claims she had a standing "sell" order if the stock price fell below \$60, and that she did not speak to Waksal before the sale. No word on whether she is creating a "Prison Everyday" domestic collection.

* **Dennis Kozlowski**, one day after being forced to resign as chairman and CEO of conglomerate **Tyco International**, was indicted June 4 for evading New York sales taxes on a set of paintings he bought with \$13.1 million of company money; he is also charged with trying to write the paintings purchase off as a business expense. He faces up to four years in prison for avoiding \$1 million in taxes and falsifying business records, according to Manhattan District Attorney Robert Morgenthau.

Prompted by Kozlowski's troubles, the DA's office has reopened an investigation it conducted three years ago into the sale of a house in Florida from a **Tyco** board member to the company's general counsel. According to the *New York Times*, property records show that the house was sold by board member **Lord Ashcroft** to his wife for \$100, who then sold it to **Byron Kalogerou**, Tyco's vice president and general counsel for \$2.5 million; both transactions took place on Oct. 27, 1997.

Lord Ashcroft is the former chairman of the security company **ADT**, which **Tyco** acquired in 1997, rewarding then-Senator **John Ashcroft** with a seat on the board. An investigator said that, because the transactions on the house took place at the time of **Tyco's** acquisition of **ADT**, it raises questions of possible violations of New York's securities laws.

The original inquiry uncovered no evidence to warrant charges, but the investigation into Kozlowski prompted prosecutors to look at the transactions on the Florida house as part of a broader inquiry into his "tangled" finances. **Tyco** has lost \$100 billion in market value since December, much of that attributed to the actions of **Tyco's** executives.

The Securities and Exchange Commission plans to open a formal investigation into whether **Tyco** executives improperly used a stock options fund to buy real estate and personal items.

In a separate inquiry, the SEC reopened a probe conducted in 1999-2000 as to whether **Tyco** used reserves and other bookkeeping strategies to inflate earnings following its acquisition binge.

The company replaced top lawyer **Mark Belnick** on June 10, on the grounds that he received \$20 million in undisclosed compensation during 1999-2001, and for refusing to cooperate with an internal investigation into misuse of corporate funds.

* **Arthur Andersen** is on trial for blocking an SEC fraud investigation into **Enron Corp.** financial disclosures, by destroying documents related to the accounting firm's audits of Enron; Arthur Andersen faces a felony charge of obstruction of justice. The jury, deadlocked in its ninth day of deliberations on June 14, asked whether they can vote to

convict if they don't agree on which Andersen employees acted with corrupt intent.

* **Glaxo**, the British pharmaceutical giant, is alleged by the Internal Revenue Service to have improperly avoided a significant portion of U.S. taxes on \$29.5 billion in drug sales during 1989-99, including on its blockbuster ulcer drug, Zantac. **GlaxoSmithKline** apparently overpaid its British parent for the drugs, thereby artificially reducing U.S. profits and paying lower U.S. taxes as a result.

Post-9/11 Terrorism Insurance Costs Zoom Out of Sight

Premiums for property and casualty insurance at showcase properties, large institutions, and commercial sites in Washington, D.C. and New York City, have risen by 50-100% compared to a year ago, according to a study by New York City-based Marsh Real Estate Practice; the insurance premium rise amounts to tens, or even hundreds, of millions of dollars a year, raising concerns that whole enterprises could be wiped out. The price increases, hitting as 70% of Washington-area policies come up for renewal at mid-year, are passed on to the main tenant—the Federal government. Terrorism insurance that was included for free before Sept. 11, 2001, generally has been excluded from policies or, if available, is priced 10-20 times as high as the entire original policy—up to \$1 million per \$100 million of coverage—often with strict limits, such as exclusions for chemical and biological attacks, radiation contamination, or anthrax.

Some businesses close to what are considered target locations (such as businesses near the White House in Washington) find they can't get terrorism insurance for any price.

Biggest Slide in U.S. Retail Sales in Six Months

U.S. retail sales—consumer activity constitutes two-thirds of all economic activity—fell 0.9% in May, the biggest drop in half a year, the Commerce Department reported June 13. The downturn is blamed on the lowest auto sales in four years, as GM and Ford scale back zero-interest loans, and as shoppers turned to discount shopping, rather than pricier department stores. Sales were \$297 billion during the month, according to the Commerce Department.

Bethlehem Steel De-Listed from New York Stock Exchange

The New York Stock Exchange announced June 12 that bankrupt Bethlehem Steel Co., the nation's third-largest producer of steel, will be dropped from the exchange listing, because the price of its stock has fallen below a dollar a share for more than 30 consecutive days. The stock had plunged from \$4 a share last June, to 15 cents the day after the company filed for Chapter 11 bankruptcy protection Oct. 15. Bethlehem had been listed on the NYSE for 96 years, and for nearly seven decades on the Dow Jones Industrial Average.

Ontario Pulls Back on Privatizing Electricity

Ontario Premier Ernie Eves announced June 12 that the intended selloff of Hydro One—the electric-transmission-grid system of the parent company, Ontario Hydro—will *not* take place this month, as planned. The sale was expected to be the biggest ever in Canada, in the range of C\$5 billion. Eves said that a sale may take place in the future, but for a delimited stake of 49% or less, thus leaving the Province the owner. Ontario enacted electricity deregulation legislation in 1998; subsequently, Ontario Hydro, one of the biggest systems in North America, was split into five parts, for intended privatization—beginning with the electricity-grid system. But on April 19, amidst growing public revolt, a ruling came from a Provincial justice that privatization would be an illegal sale of public assets.

Nothing is resolved. Last week the board of Hydro One was forced to resign, and a new 11-member board of directors was

appointed June 11 by the Eves government. The nominal issue is excessive executive compensation, but the real issue is whether a public-interest policy drive will emerge in the Province and Canada, in the direction of the international LaRouche dialogue to restore national economies?

Financial Turbulence Crescendoes Throughout Ibero-America

Here are some of the latest developments (see also [IBERO-AMERICA NEWS DIGEST](#)):

* **Ecuador:** Growing public protest has forced the government to suspend plans to privatize power companies, which the IMF is demanding as a conditionality for a \$240-million standby loan. (This is also the case in Peru, where even George Soros's pet President Alejandro Toledo has had to pull back on some of his energy privatization plans.) An IMF mission is in Ecuador now, and the government is resisting a Fund demand to reallocate 10% of the funds from its oil-stabilization fund, to buy back debt bonds. This would be in addition to the 70% the government has already agreed to use for that purpose. Instead, the government wants to allocate the 10% to social programs.

* **Paraguay:** The peasant and trade-union mobilization which forced the Senate on June 6 to suspend a law authorizing privatization of state-owned companies, provoked a complaint from U.S. Ambassador David Greenlee, who said the privatization program would have helped create a "dynamic economy." Now, the Federation of Industry, Trade, and Production is debating whether to call a general strike, to protest tax hikes and other austerity measures, although it apparently supports privatization.

* **Venezuela:** The bolivar closed at a record low June 13, falling 1.7%, and bringing its decline year-to-date to 36.6%. The volatile political situation, which includes plans by the opposition to President Hugo Chavez, to conduct big marches June 15, has reportedly fed a soaring demand for dollars. Planning Minister Felipe Perez, a University of Chicago-trained monetarist extremist, said June 11 that Chavez's economic program (which Perez designed) "lacks credibility," but they'll keep working on the problem, he said. The austerity plan includes increasing the VAT tax, eliminating some tax exemptions, and eliminating the fuel subsidy, a provocative measure which is guaranteed to unleash social protest.

Perez announced June 12 that the government will have to borrow more abroad this year than originally anticipated, because tax revenues will be below target. For the first four months of this year, tax revenues were only 88% of the government target for that period.

* **Uruguay:** A 24-hour general strike June 12 was directed against the government's IMF-dictated austerity program. Unemployment now stands at 15%, or 200,000 people, while another 560,000 people hold jobs categorized as "precarious." There are only 3 million people in this small country. The strike led by the PIT-CNT labor federation was joined by trade unionists and public-sector employees, including teachers and electricity, oil, energy, and water workers. Health-care, banking, and transport workers also had planned to join the strike. PIT-CNT leader Luis Puig told Reuters, "We're trying to change the direction of economic policy, because here we're heading down the same path as Argentina."

Singapore Warns of Dollar Collapse

Writing in the June 11 *Singapore Business Times*, Larry Wee's commentary, entitled, "Why the U.S. \$ Is on Dangerous Ground," asks "Would you buy U.S. dollars today?," and answers, that the question is crucial because people have to understand that they don't have to *sell* the dollar to make it fall—they only have to *stop buying*!

Wee reviews some of what *EIR* has been saying for some time, i.e., that the global economy continues to chug along partly because the United States keeps raising the ceiling on the current account deficit. The danger is that it now takes more than

U.S.\$1 billion daily in foreign goods and services to keep that bubble going. If no one buys U.S. dollars for just one month, there will be more than U.S.\$30 billion to be converted back to the currencies of those who sold goods and services to U.S. buyers. What happens when those who already hold those dollars, start to sell?

Wee reports that the dollar has already fallen to a seven-month low vis-à-vis the yen, a 17-month low vis-à-vis the euro, and a two-year-plus low vis-à-vis the Swiss franc and gold, and, making matters worse, the Wall Street markets continue to slide, because valuations of U.S. stocks, by most accounts, are still relatively high. The U.S. dollar's fortunes have become increasingly closely correlated to Wall Street's.

Israeli Economy Continues Plunge; Sharon Must Face Crisis

Bank of Israel Governor David Klein met with Finance Minister Silvan Shalom June 12 in preparation for an evening meeting the next day with Prime Minister Ariel Sharon, just returning from a trip to the U.S. and Britain.

Klein and Shalom, who are known to be at daggers drawn, held what had been billed as a "turning the leaf" meeting, after which Klein did not rule out further increases in the interest rate. However, Klein is known to have said that a budget deficit of 3.9% of GDP, in local terms, would be the equivalent of 7% in international terms, and was unacceptable. Also, at present, official inflation is at 3.9%, as compared with 2-3% in most European Union countries. The shekel has fallen 17% in value against the dollar since the end of December (now 4.96 to the dollar), when Klein cut the interest rate to a record low of 3.8%.

At the meeting with Sharon and Shalom, Klein was expected to demand that the Prime Minister and Finance Minister implement cuts of billions of shekels in both this year's and next year's budgets. The Israeli daily *Hatzofeh* reported that the Prime Minister summoned Klein and Shalom to try to put the brakes on the collapse of the Israeli economy. Attempting to convey calm, Sharon before the meeting said, "I have confidence in the shekel and the Israeli economy." Also, the Israeli daily *Ma'ariv* editorialized, "Sharon, who, up until today, hasn't expressed himself on economic issues, must increase his involvement in this field."

Kirch Media Empire: Germany's Biggest Postwar Bankruptcy

Putting the final touches on Germany's biggest bankruptcy since World War II, Kirch's holding company and its investment arm filed for protection from creditors in a Munich court, as the last pillars crumbled of the nation's media empire, which has collapsed under \$5.7 billion in debt from a money-losing venture in pay television, and acquisitions that didn't pay off. More than 80 companies are looking at buying what's left.

UNITED STATES NEWS DIGEST

Former NSA Head Calls for Breakup of FBI

General William Odom (USA-ret.), the former head of the National Security Agency, penned a scathing attack on the FBI in the June 12 *Wall Street Journal*, calling for the Bureau to be broken up because it is beyond repair, and culturally and structurally incapable of doing effective counter-terrorist and counter-espionage work. Odom called for the FBI to be split in half, with all the counter-terror and counter-espionage functions to be turned over to a new National Counterintelligence Service, to be devoted solely to that work. Odom dismissed those who call for the FBI to return to the "good old days," rejecting the idea that there *ever* was a good old day of FBI competence, and tracing a string of Bureau failures to catch spies all the way back to World War II.

Odom argued that the techniques the FBI can use to catch criminals do not work in catching spies and terrorists, who are far more sophisticated than even the most organized criminals. "The FBI's main weapons, tapping telephones, using informers, and heavy-handed interrogations, can be effective against many criminals. Such techniques do not work against spies, however, and more recently against terrorists."

Odom concluded by taking a direct hit at Attorney General John Ashcroft. "Those who fear that such an agency [National Counterintelligence Service] could threaten American civil liberties have a point, but their concerns can be met with proper judicial and congressional oversight. Given today's realities, prudence dictates going ahead with an NCS but also building safeguards. A bigger danger is Attorney General John Ashcroft returning powers to the FBI that were taken away in the 1970s because it had abused them. It couldn't catch spies when it had these powers before. Why should we believe that the FBI can use them to catch spies and terrorists today?"

Vice President Cheney Underlines Policy of 'Preemptive Strike'

Vice President Dick Cheney underlined the new U.S. policy of "preemptive strike" enunciated by President Bush at West Point; Cheney made his remarks during his June 10 speech to the International Democratic Union conference, meeting at the White House. (The IDU is made up of conservative parties from all over the world.

Cheney's "preemptive strike" policy has Iraq as his first test case. "In this new century, old doctrines of security will not always apply," Cheney said. "During the Cold War, we were able to manage the threat with summit meetings, arms control treaties, and by a policy of deterrence, through which an act of aggression would put the aggressor's own nation at risk. In the terrorists, however, we have enemies with nothing to defend. A group like al-Qaeda cannot be deterred or placated or reasoned with at a conference table. For that reason, this struggle will not end in a treaty or in accommodation with terrorists; it can only end in their complete and utter destruction.

"Nor can we always rely on the doctrine of containment; as the President said last week, 'Containment is not possible when unbalanced dictators with weapons of mass destruction can deliver those weapons on missiles or secretly provide them to their terrorist allies. Grave threats are accumulating against us, and inaction will only bring them closer. We will not wait until it is too late.' For our part, the government of the United States understands what must be done. We have a responsibility to protect ourselves against future attack, to prepare our military for all future threats, to maintain the global coalition we have built to defeat global terror, and to take preemptive action, when necessary," said Cheney.

Kucinich Challenges Bush on ABM Treaty Decision

On June 6, Rep. Dennis Kucinich (D-Ohio) offered a "privileged resolution" calling on President George Bush to seek Congress' approval of his December decision to withdraw from the Anti-Ballistic Missile (ABM) Treaty. Under House rules, a privileged resolution deals with matters "affecting the rights of the House collectively, its safety, dignity, and the integrity of its proceedings," or "affecting the rights, reputation, and conduct of the members ... in their representative capacity only."

Since only the Senate deals with treaties, House Foreign Affairs Committee chairman Henry Hyde (R-Ill) made a point of order against Kucinich's resolution, arguing that it did not constitute a question of House privilege. Hyde said that in 1979, the Supreme Court rejected the claim made by then-Senator Barry Goldwater (R-Ariz), that President Jimmy Carter had no right to abrogate the U.S. defense treaty with Taiwan. Hyde concluded that when President Bush decided to abrogate the ABM Treaty, he "was fully within his rights to act as he did," and that the Goldwater precedent would legally obtain.

Kucinich replied that the debate is "about the role that this institution has in a democracy." He said that because, under the Constitution, treaties are the law of the land, the President has no unilateral authority to repeal them, any more than he has

the authority to repeal a law passed by Congress. "We must assert our role in this treaty withdrawal," he said, "in order to prevent further erosion of Constitutional authority." What is at issue, "is whether this House of Representatives, this Congress, will stand up to an imperial Presidency," one that "does not respect the Constitutionally protected role of this Congress in the governance of our nation."

Speaker Pro Tempore Ray LaHood (R-Ill) ruled that Kucinich's resolution, because it invoked a Constitutional authority of the Congress as a whole rather than just the House, was not in order. LaHood's ruling was upheld on Kucinich's appeal by a vote of 254 to 169.

Desperate Dems Campaign as 'Bush Dems' for Fall Elections

Democratic Congressmen and Senators who are facing tough re-election campaigns are wrapping themselves in the mantle of President George W. Bush, to try to increase their chances of getting re-elected.

Democratic candidates can thank Joe Lieberman and his DLC for the mess they're in; these creeps are destroying the Democratic Party, but fast.

According to an article in the June 13 *Washington Post* by political/White House reporter Dana Millbank, a number of desperate Dems have been using the image and/or voice of President Bush in TV and radio ads, to show how close to the President they are snuggling.

*Liberal Democratic Senator Tom Harkin of Iowa is using Bush's name and voice in an ad, along with a message that Harkin, who supports the farm bill Bush recently signed, is closer to the President on that issue than is Harkin's Republican opponent, Iowa Congressman Greg Ganske.

*Montana Democratic Senator Max Baucus is airing TV and radio ads that invoke Bush and use his voice—and, in the case of the TV ads, show Baucus standing next to the President.

*North Dakota Democratic Congressman Earl Pomeroy is airing a TV ad showing himself standing with Bush in the Oval Office. Apparently, Pomeroy has gone so far as to cite his ties to House GOP leaders Dick Armey and Tom DeLay.

*Ultra-liberal Democratic Senator Paul Wellstone of Minnesota is showing a picture of himself and Bush on his campaign website.

*Texas Democrat Tony Sanchez, running for Governor, has been using a TV ad citing the way in which Bush, as Texas Governor, collaborated with Democrats; Sanchez says in the commercial, "That's my model."

*South Dakota Democratic Senator Tim Johnson (whose South Dakota Senate colleague is Majority Leader Tom Daschle), has used a clip of Bush embracing Daschle shortly after Sept. 11.

Bush Team Pushes for Terrorism Insurance

On June 10, Treasury Secretary Paul O'Neill sent a letter, signed by Director of the Office of Management and Budget Mitch Daniels, Director of the National Economic Council Lawrence Lindsey, and Chairman of the Council of Economic Advisers R. Glenn Hubbard, to Senate Minority Leader Trent Lott (R-Miss), calling for action on a terrorism insurance bill.

O'Neill warned that the absence of such legislation is "having a palpable and severe effect on our economy." He said the lack of terrorism coverage "makes it more difficult to operate, acquire, or refinance property, leading to diminished bank lending for new construction projects and lower asset values for existing properties.... Without such insurance, the economic impact of another terrorist attack would be much larger, including major bankruptcies, layoffs, and loan defaults."

Last December, the House passed a terrorism insurance bill that was based on a bipartisan agreement among the White House, Senate Banking Committee Chairman Paul Sarbanes (D-Md), and Sens. Chris Dodd (D-Conn), Phil Gramm (R-Texas), and Mike Enzi (R-Ore). However, the bill has been stalled in the Senate ever since. On June 4, Majority Whip Harry Reid (D-Nev) said that Republicans have blocked every attempt to move the bill. He said the desire to move it quickly requires a unanimous consent agreement, and the agreement the Democrats are proposing would allow for amendments.

Reid said that part of the problem is that some Senators wish to use the bill as a vehicle for tort reform. "This is not about tort reform," he said. "It is about maintaining the stability of our economic infrastructure."

U.S. Offers Grain to Africa, But Blasts Zimbabwe in Process

The U.S. has offered to supply one-third of the 1.2 million tons of grain needed to stem starvation in Southern Africa, but blasted Zimbabwe in the process.

Andrew Natsios, the head of USAID, said the U.S. would give an extra 275,000 tons of wheat to the UN emergency relief fund for the six Southern African nations hit by famine, making the U.S. total grain donation 400,000 tons. However, he said that the problem in Zimbabwe, home to half the estimated 12.8 people threatened with starvation, has no food shortage, but only a distribution problem (!), since President Robert Mugabe is refusing food to members of the political opposition. Natsios claimed that he did not oppose the land reform policies in Zimbabwe, but only the way they were being implemented, which he blames for "collapsing agricultural production in areas where there was rainfall," while, he claimed, the land went to Mugabe's "cronies" rather than the poor.

It remains to be seen whether the food is delivered, or used as a weapon. The UN World Food Programme has also claimed that the Zimbabwean land seizures were to blame for aspects of the famine.

New Group, 'Unanswered Questions.Org,' Leaves Questions Unanswered

A new group—Unanswered Questions.Org—which is seeking to coordinate grass-roots questions about the events of Sept. 11, and is launching a website, held a press conference at the National Press Club in Washington June 10. The audience of about 100 was a mixed bag of leftists, independent journalists, families of victims, etc. Some of the founders and speakers of the group are supporters of, and well known to the LaRouche movement, yet no one from *EIR* was invited to speak.

Politically, the group supports an "independent commission" to investigate Sept. 11, and generally the speakers promoted anti-Bush conspiracy theories. One panel was composed of relatives of victims of 9/11, and their legal representatives, who are filing suit against the government and the airline industry for negligence. They were to join Senators such as Democrats Lieberman and Torricelli on Capitol Hill, to demonstrate in favor of the "independent commission" (i.e., the Joe Lieberman Probe).

The second panel included a number of people who are well-versed in Lyndon LaRouche's analysis of Sept. 11 as a coup attempt from within the U.S. against the Bush Administration, but didn't display it in their presentations, speaking on the

Patriots Act, the lack of military response to the attack on the Pentagon, laxness in immigration laws, anthrax, and Bush family connections to oil and drugs in Southeast Asia as a motive for the attacks. Not surprisingly, one of the speakers, Tom Flocco, who is apparently the major funder of the enterprise, is tied to the Larry Klayman, Judicial Watch, Rees-Mogg, Arnaud de Borchgrave circles.

Former Enron Employees To Receive Increased Severance Pay

Enron employees who lost their jobs when the company imploded last year, will receive at least \$29 million in additional severance payments, based on what industry and labor experts describe as an unusual agreement reached June 11 among the employees, labor, and civil rights activists, and the company and its creditors. The agreement gives the workers, some of whom have been jobless for the past six months, up to \$6,900 per person, depending on their length of service with Enron, and their salary at the time they lost their jobs. (The AFL-CIO is reporting over its website that the amount is up to \$13,500 per worker, and that "up to \$80 million of the huge bonuses given to executives can be taken back and used to help laid-off workers.")

This amount, which is being described as a victory for ex-employees, is small potatoes, especially when compared to the huge take of many in senior Enron management, who sold shares in the company for millions of dollars before the firm went under, while forcing employees to hold onto the same stock.

After the firm filed for bankruptcy protection from creditors in December, laid-off workers each were initially given \$4,500, with an additional \$1,100 later. The company had argued it couldn't pay the full severance amounts *because it had to pay its creditors first*.

Under Federal bankruptcy law, Enron and its creditors had no legal obligation to offer additional funds to former employees, *but chose to do so, to permit much larger claims brought by creditors, estimated at \$60-\$100 billion, to be put forward with fewer delays*, according to bankruptcy experts and the participants.

Bankruptcy experts said the agreement was unusual because workers usually find themselves with few legal protections in a Chapter 11 reorganization, in which secured creditors, such as banks, go to the head of the line. "It knocks me over," said Elizabeth Warren, a law professor at Harvard Law School specializing in bankruptcy procedures. She said she could not recall anything similar happening before in bankruptcy actions involving non-unionized workers. She said the company and its creditors probably decided to pay the workers because they had become "an angry and powerful group who could derail Enron's reorganization." "These employees didn't just take it, as employees usually do," she said. "Workers are seizing power for themselves."

Retirees Bused to Canada To Buy Prescription Drugs

A busload of retirees from Mercer, Pennsylvania and the surrounding area will go by bus to Hamilton, Ontario to buy prescription drugs, according to the *Youngstown Ohio Vindicator*. The bus trip is an action sponsored by the Alliance of Retired Americans, the seniors' organization of the AFL-CIO, to dramatize the plight of seniors unable to afford the cost of needed medicines in the United States.

School Districts Cut Back School Week To Save Money

Many U.S. school districts are cutting back to a four-day school week to try to save money in this period of gigantic budget deficits, reports the June 9 *New York Times*.

So far, 15 states have been affected. For example, a small school district in South Dakota, which had to cut one-sixth of its budget, went to a four-day week. In Colorado, 36 of 180 districts have gone to a four days; in Wyoming, the number has been 20 of 48 districts. Many working parents have been forced to put their children in day-care centers on Fridays, where school is no longer open that day.

IBERO-AMERICAN NEWS DIGEST

IMF Hitman Anoop Singh Promoted

The International Monetary Fund's Special Operations Director, Anoop Singh, has been promoted to head the Western Hemisphere Division. The move is a real provocation to Argentina, which has protested Singh's imperial arrogance as he negotiated with the Duhalde government, and has also accused him of lying about the position of foreign banks in Buenos Aires, vis-à-vis the government's plan to voluntarily swap frozen bank deposits for government bonds. Spitting on the Argentines, IMF head Horst Koehler issued a statement lauding Singh for having "demonstrated strong operational and intellectual leadership in a variety of assignments." Singh will now oversee IMF activities in 34 countries, and will report directly to Koehler.

Singh previously served as Deputy Director of the Asia and Pacific Department, and held senior positions in the European, Policy Development, and Review Departments. He has also headed IMF missions to Australia, China, India, Japan, Thailand, and Indonesia.

Singh and Krueger Squeeze Argentina

The IMF's Anoop Singh is organizing to stop any agreement with Argentina, unless the Duhalde government scraps its plan to allow depositors to voluntarily swap their frozen deposits for government bonds, as part of its strategy to gradually undo the freeze of deposits ("*corralito*"). In a confidential, and very harshly worded, document presented to the IMF's board last week, Singh imperiously demanded that Argentina make its swap plan compulsory, arguing that this should be a new conditionality for any agreement signed with the IMF.

Backed by U.S., British, and Canadian banks which operate in Argentina, Singh threatens in his document (to which the Argentine newspaper *Clarín* had access) that "we won't move forward" until there is more discussion, and "greater clarity on the policies which Argentina will apply." Singh argues that the just-enacted deposit swap plan, which will allow depositors to use their government bonds to purchase tangible goods such as cars, homes, large appliances, etc., will permit a continued "leaking" of funds from the banking system—funds which are used largely to buy dollars, thus driving up the price of the dollar, and causing hyperinflation. It is irrelevant, he says, that the Argentine people and Congress oppose a compulsory plan. Singh also demands that privatized utility companies be allowed to raise their rates. Significantly, Singh criticizes the Argentine legislature for drafting laws that would still allow for prosecution of those guilty of financial crimes. The IMF had forced Argentina to revise its "economic subversion law," which enables the state to prosecute bankers who defraud the people or the nation.

Finance Minister Roberto Lavagna told the IMF he *does not* want Singh to head up whatever IMF mission is sent to Argentina.

IMF Mission Arrives in Argentina with New Outrageous Demands

The IMF had announced June 11 that an "advance" mission would arrive in Buenos Aires June 13, supposedly to negotiate a new agreement. But doubts have already been raised about the mission's purpose—the infamous Anoop Singh won't be

involved in the initial discussion process, but will arrive in 15 days—and moreover, the Fund has made clear it expects immediate action in three areas, beyond what the Duhalde government has already done. Heading up this mission is John Thornton, a Briton who has worked closely with Singh. The Argentines' urgency in coming to an agreement as soon as possible, is that it must pay \$1 billion to the IMF on July 17.

Now the Fund wants provinces to sign "definitive" agreements with the Argentine Federal government to reduce the deficit by 60% (the earlier agreements were only "preliminary"). It wants President Duhalde to veto articles taken from the now-defunct economic subversion law and incorporated into the penal code (the incorporation of those articles would mean that bankers and businessmen guilty of financial crimes could still be prosecuted). Third, the IMF wants changes in the government's plan to undo the bank deposit freeze, to make it obligatory (rather than voluntary) for depositors to swap their frozen funds for government bonds, and demands also some kind of "monetary anchor" as a defense against hyperinflation. What form the latter would take is unclear.

U.S. Plays 'Russian Roulette' with Ibero-American Nations

"With your treatment of Argentina, you are playing Russian Roulette with the Southern Cone.... If you let Argentina go under, every Latin American country will ask, what's the use of being a U.S. ally?" These remarks came from Rodolfo Gil, Argentina's Ambassador to the Organization of American States (OAS), in a conversation reported by *Clarín* on June 7, with Assistant U.S. Secretary of State Otto Reich and Roger Noriega, U.S. Ambassador to the OAS. In the discussion, which occurred during the OAS meeting in Barbados June 2-4, both Reich and Noriega reportedly indicated that "the Bush Administration gave instructions" to the IMF, to show more flexibility toward Argentina, and get moving on negotiations for an agreement.

'Failed State' Label Used To Plan Argentina Takeover

The imperial framework of British writer Sebastian Mallaby is being used to declare Argentina a "failed state," one that would require supranational intervention establishing it as a protectorate, 19th-century-style. This is the topic of widespread debate inside Argentina and in the United States, according to *Clarín's* "Zona" supplement of June 9. Mallaby and his ravings against the nation-state and national sovereignty were exposed by *EIW* earlier this year.

The "protectorate" proposal, made a few months ago by MIT Professors Rudiger Dornbusch and Ricardo Caballero, suggesting that a team of foreign experts be sent in to Argentina to manage its finances—it is too incompetent to do so itself—is just the tip of the iceberg, *Clarín* says.

At the U.S. Army War College, Prof. Robert Dorff says there's no doubt that Argentina is a failed state, given the existence of 18 currencies and powerful governors who can block the President. While Dorff says the U.S. should help Argentina change its economic policies, which he identifies as the source of the political crisis, he emphasizes that the danger is that the weakness of failed states can contaminate an entire region, leading to generalized chaos. Professor Pablo Stiller of the University of California at Berkeley told *Clarín* that the Dornbusch plan wouldn't work in modern, democratic Argentina, suggesting instead having the World Bank or Inter-American Development Bank monitor austerity accords between the government and the provinces.

While the Dornbusch/Caballero proposal is different from 19th-century strategies, because it doesn't call for military intervention, says *Clarín*, the 19th-century idea of establishing a protectorate over unruly nations *is* alive and well. Evidence of this, says *Clarín* is the article by Sebastian Mallaby in the April 2002 issue of the Council on Foreign Relations' journal *Foreign Affairs*.

Feeding the "failed state" imperialism were statements by Curtis Struble, Assistant U.S. Secretary of State for Inter-

American Affairs. Speaking in Madrid, Struble said there could be a political collapse of Argentina, "with unforeseen results," but added, "I think it can be avoided." Struble repeated the line that the Duhalde government "still has to take a series of actions," of a financial nature, especially relating to the banking system. He asserted that Argentina's crisis is due to "deep structural problems," which will require years to resolve, before any recovery can be contemplated.

Free-Trade Policy Drives Argentines to Garbage Dumps

As of June 2002, an astounding 51.4% of Argentina's population is now classified as poor, according to the government's own Siempro agency, which operates out of the President's office. This means that out of 36 million people, 18.2 million are poor; worse, of that figure, 8.3 million are children under the age of 18. To put it more starkly: 66.6% of the country's 12.5 million youth (under age 18), are poor, and in the country's interior, the percentage rises to 80%. In Greater Buenos Aires, 70% of all children under 18 are poor. Of 8.3 million poor children, 4.1 million are indigent—their families cannot provide them with basic food or clothing. The incidence of malnutrition among children is increasing rapidly.

In December 2001, there were 7 million poor children in the country. In only five months, that figure has increased by 1.3 million, a rate of 250,000 per month.

According to the government's statistical agency, INDEC, rapidly rising food and household costs are causing an increase in poverty at the rate of 762,000 people a month, or 25,000 per day. INDEC reports the cost of the basic monthly market basket increased by 35.7% in the first five months of this year. Last December, a family whose monthly income was less than 461 pesos was considered poor; now a family earning less than 626 pesos is poor.

Nor is it just the unemployed who are poor, but now also the majority of those still holding jobs, for whom the average monthly wage is 569 pesos. Half of the 8 million salaried workers earn less than 400 pesos a month.

The number of people classified as indigent, who cannot even purchase the most basic foods, is growing at an even more rapid rate than general poverty. In 1998, some 28.9% of the poor were indigent; today that figure is 42.6%. Thus, extreme poverty has become incredibly widespread in this resource- and food-rich country, with the attendant consequences of malnutrition and lowered life-expectancy. Argentina now has rates of indigence *higher* than those of many other Ibero-American countries. Throughout the mid-1970s, only 5% of Argentine households were considered poor.

On June 7, the French news service *AFP* reported from Buenos Aires that Argentines are reduced to scavenging in the garbage dumps. "Armies of people in rags, of all ages, go through the streets of the capital each night, overturning the garbage in search of leftover bits of food," *AFP* reported. Many of these are skilled workers from the textile and construction sectors, which have collapsed.

Wall Street Cheers Over Release of Financial Looter Cavallo

On June 8, Argentina's Domingo Cavallo, the former Finance Minister, was released from jail, following an appeals court ruling that there is insufficient evidence to keep him on charges of "aggravated contraband," relating to illegal arms sales to Croatia and Ecuador in the early 1990s. The *Washington Post*, at least, was happy. Its correspondent Anthony Faiola chirped that former Finance Minister Cavallo is "one of Latin America's most celebrated economists," whose detention sparked a "worldwide campaign by leading economists, who bought newspaper ads"—in the *New York Times*, among other places—"and wrote opinion columns calling for his release." Cavallo's Wall Street cronies had screamed that the former Finance Minister's April arrest was proof that Argentina lacked "juridical security," and that the government was trying to "distract attention" from the financial crisis.

LaRouche Was Right About Plot To Annihilate Republican Military Institutions

The Peruvian daily *La Razon*, which has taken the point in opposing the drive by the George Soros-bought Toledo government to decimate Peru's defense forces, last week ran a lengthy opinion column by Army Col. Jorge Salcedo Moron (ret.), entitled: "Objective: To Disappear the Peruvian Armed Forces."

Colonel Salcedo writes that the ongoing judicial witchhunt against the military heroes of the "Chavin de Huantar" hostage-rescue operation in 1997, appears to be "one of the last actions of the methodology adopted to obliterated the Peruvian Armed Forces." Salcedo says that this methodology has been denounced by "U.S. world social fighter Lyndon LaRouche since 1993, when the book *The Plot To Annihilate the Armed Forces and Nations of Ibero-America*" was released. Salcedo says this methodology is part of the "New World Order" which, through globalization, seeks to impose "a hallucinatory economic system [which] sees the Armed Forces of our nations as the major obstacle to its ends." This is what happened to the Argentine Armed Forces, continues Salcedo, "which are now praying to God that their nation doesn't get into an international conflict," and it appears that Peru is on the same path. The government of Alejandro Toledo was placed in power, says Salcedo, to achieve this purpose, and it is now working against the Armed Forces, in order to, "without greater nationalist opposition, insert us within globalization which would be genuine treason against Peruvian society by our political leadership, since they would be condemning Peru and its people to being one of the permanently underdeveloped nations in that globalized world."

Salcedo concludes by calling on the Peruvian people to rally in support of their Armed Forces, even if it means demanding a referendum to do so.

Drug Legalizer Soros Muscles into Brazil Elections

Derivatives king George Soros, a patron of the global plan to legalize mind-destroying drugs, stuck his snout into Brazil's Presidential elections with an interview to *Folha de Sao Paulo's* Clovis Rossi, in which he said Brazil has no choice but to elect the current government's candidate, Jose Serra, as President.

Soros said that if "Lula" da Silva of the Workers' Party (PT) were elected, the financial markets would drive Brazil into "chaos." If Serra were elected, however, the markets would recover, because Brazil is "the best student" of the hegemonic world model. This reality isn't democratic, he commented, but he said the U.S. today is like "ancient imperial Rome. Only the Romans voted. In modern global capitalism, only the Americans vote. The Brazilians don't vote."

The interview had its intended diversionary effect: the President, various candidates, Lula's PT Party, and various party spokesman issued statements commenting on Soros's interview—building up Lula as the candidate whom megaspeculator Soros opposes (even as Soros is financing a good chunk of the PT's campaign). As one PT leader chuckled, the last thing the government's candidate needed, was to be identified as Soros's candidate for President.

Interviewer Rossi noted in his article, that Brazilians should remember that Argentina was "the best student" until it collapsed, and has now been left to its own fate.

WESTERN EUROPEAN NEWS DIGEST

European Union Puts FARC on Terror List, Finally

Yielding to intense pressure both from the Colombian government and, presumably, the United States, the European Union has finally agreed to include the Colombian narcoterrorist FARC on the EU's list of terrorist organizations. However, the

EU has refused to do the same with the National Liberation Army (ELN), which it had been assisting in negotiations with the Colombian government until recently. The decision on the FARC allegedly means that FARC bank accounts in EU countries will be frozen, and all political activity by FARC representatives banned.

It remains to be seen whether these decisions will be enforced. For years past, the FARC and similar organizations have received strong support from various European elements.

Colombian military commanders Gens. Fernando Tapias and Jorge Mora responded that the EU decision represented an "elemental recognition," an "expression of reality," and "excellent news."

New Book Claims British Parliament Targetted 9/11

A new book, *Inside al-Qaeda*, claims that the British Houses of Parliament were targetted on Sept. 11, along with key landmarks in the U.S. capital, but that the grounding of all airlines flights stopped the plan.

The author, Rohan Gunaratna, is the British Chevening Scholar at the University of St. Andrews, Scotland, and was Hesburgh Scholar at the Institute of International Peace Studies at Notre Dame in the United States, as well as honorary fellow at the International Policy Institute for Counter Terrorism in Israel, and principal investigator at the UN's Terrorism Prevention Branch. He told CBS Evening News on June 10 that one Afroz Mohammed was arrested in India after fleeing England after Sept. 11, and admitted that a team had gathered at London's Heathrow Airport to hit the Parliament—an admission he later retracted. Afroz Mohammed is described as following the pattern ascribed to the accused 9/11 hijackers—flight training, money from al-Qaeda-connected sources, and so forth

The book also feeds into the current "dirty bomb" hysteria, by claiming that al-Qaeda paid \$1.5 million for a canister of South African uranium from a Sudanese military officer, but it turned up empty. The al-Qaeda are still trying to get uranium from Russian, Ukrainian, and Pakistani sources, Gunaratna claims.

Former Chancellor Helmut Schmidt Hits U.S. Attack on Iraq

According to the German press, former West German Chancellor Helmut Schmidt of the Social Democratic Party has attacked U.S. plans for a war against Iraq, a move which he warned would blow apart the anti-terror coalition and add grist to the mills of Islamic terror propagandists. Schmidt, speaking at a Berlin gathering of 23 Inter-Action Council of former government leaders, also criticized President Bush's formulation of an "axis of evil" as nonsense, asserting that there is no such axis, nor is there any military solution to the problem of terrorism.

Anyway, American policy on the Mideast is "inconsistent," and U.S. conduct is in general unilateralist, Schmidt charged, urging Europeans to acknowledge that as a fact, rather than believing in official U.S. declarations to the contrary.

At present, Europe is weak, Schmidt said, with no more international muscle than India or Brazil, whereas Russia and China at least have the potential to join the club of three global superpowers, along with the United States, by the middle of this century.

Among those attending the Berlin IAC event were former Russian Prime Minister Yevgeni Primakov, former Japanese Prime Minister Kiichi Miyazawa, and former German President Richard von Weizsaecker.

Europeans Think U.S. Outlook 'Totally Mad'

The Europeans think that the United States and its concept of the "axis of evil" are "totally mad," wrote *Washington Post* columnist Richard Cohen in the paper's June 10 issue.

This observation came after hearing a speech by William Kristol, head of the *Weekly Standard* and an organizer of the shamelessly pro-empire group, Project for a New American Century (courtesy of the Olin, Bradley, Mellon Scaife, and Smith Richardson foundations, and Rupert Murdoch).

Kristol recently gave a speech before the Council for the United States and Italy at the Villa D'Este in Lake Como, Italy, in which he declared what Cohen called "Kristol's War." Unfortunately for the U.S., Kristol is looked upon as an emissary of the Bush Administration in his rantings. As one of the princes of the Washington neo-conservatives, Kristol "announced a vast foreign policy agenda beginning with a war against Iraq, and ending with replacing the monarchy in Saudi Arabia." Kristol extended his war plan to all the "axis of evil" countries (North Korea, Iran, Iraq), and added a few new countries himself—such as Saudi Arabia.

The Europeans call this sort of talk "provocative," Cohen writes, but they mean they think it's nuts.

EU Commission Welcomes Gas Deal with Germany, Russia, Ukraine

The European Union Commission welcomes the tripartite gas policy deal involving Germany, Russia, and Ukraine, the EU Commissioner for Energy, Loyola de Palacio, says, commenting that the agreement just signed by the Presidents of Russia and Ukraine and the Chancellor of Germany near St. Petersburg will contribute to "safe gas supplies to Europe."

An aspect not directly addressed in media reports, is that it is now clear that the entire gas pipeline grid in Europe will be under the control of the Europeans, the Ukrainians, and the Russians. The Ukrainian route handles 80% of Europe's gas imports from Russia. No non-European (geopolitical) interests will be allowed to sneak in. Enron, which before its collapse had ambitions to challenge the gas-trading firms in Europe, is out of the game.

Ukraine will not fully privatize its gas pipeline grid, but maintain national control, and otherwise operate the grid through a consortium group with leading Western European gas firms like Gaz de France, Ruhrgas, Enel. Their partner in the group will be a newly created Russian-Ukrainian joint venture between Neftogaz Ukrainy and GazProm. The Western Europeans are expected to pay Ukraine a net 1.5 billion euros for the arrangement.

The Slovakian gas pipeline grid will be majority-owned by Gaz de France and Ruhrgas in a joint venture that has just received the EU Commission's blessing; the Czech sections of the pipeline grid are majority-owned by Germany's RWE already.

As far as new investments in the ageing Ukrainian pipeline grid and compressor units are concerned, German producers of equipment hope for profitable contracts with the new consortium group, Klaus Mangold, chairman of the Eastern Trades Division of the German Industry, said in Berlin.

Russia and Eastern Europe News Digest

Russian Analyst Warns of New Provocations in the Gulf

Well-known Russian economist Tatyana Koryagina warned June 12 that new provocations in the Middle East are likely in the near future, because the world financial crisis is entering another phase-shift. Taking into account the mentality of the

oligarchical groups she is monitoring, Koryagina told *EIR* she thought the focus of a new terrorist provocation or military operation would most likely not be India-Pakistan, but the Middle East, particularly Iraq and Iran. Such a new provocation would be accompanied by a major currency crisis and manipulations connected with oil.

Koryagina believes some major event was already planned for May, but was called off for some reason, perhaps connected to the circumstance, that—quite apart from the silliness and hysteria coming out of the Bush Administration—certain investigations of Sept. 11 may have touched upon some of the networks actually involved in those attacks, particularly Israeli ones. She also notes that just days before President George Bush's arrival in Moscow at the end of May, Russian President Vladimir Putin called a special Security Council meeting on what to do in the event of a dramatic collapse of the Western financial system.

Koryagina's forecast of financial and political earthquakes with their epicenter in the United States (see *EIR*, July 20, 2001), drew attention inside Russia in the summer of 2001 and internationally after her forecast was borne out by the events of Sept. 11.

Russian Army Paper: U.S. Afghan Operation a Total Failure

Russia's military newspaper *Red Star* of June 11 asked pointed questions about the war in Afghanistan, which began in October 2001, and, with the downing of a U.S. C-130 plane this week, and the killing of three more U.S. military personnel, shows no sign of being completed. Russian military veterans, experienced with a decade of losses in Afghanistan carried out by the then-Soviet Union, have much to teach the foolish American "utopians" who are eager to declare "victory" in Afghanistan so as to move on to the next target in a "perpetual war" drive.

Red Star asks: More than half a year after large-scale U.S. military operation, can we say it was a success? Were the al-Qaeda really defeated? The paper answers: No. In fact, there may very probably be a new civil war. In any case, from the course of events, we can see, that a renaissance of Afghanistan is not going to occur for a long time.

Up to January 2002, the U.S. made 25,000 flights, dropped 18,000 bombs, including 10,000 with high-precision warheads. In Tora Bora, the high-power bombs BLU-82 were also used, and Special Forces were deployed. But today, despite such huge operations, experts agree that the operation was by no means so successful as originally thought: There was no success in destroying the Taliban and al-Qaeda forces.

One main reason for that failure, says *Red Star*, is that the Pentagon failed to close the border to Pakistan in time. Another is the miserable failure of attempts to bribe Afghan field commanders and local leaders into cooperation. As a result, the majority of the Taliban/al-Qaeda fighters were able to escape the operation, fleeing across the border or being safehoused by local population. For political reasons, a full U.S. operation to follow them into Pakistan was ruled out.

Many experts, however, consider that all of the above is still not the chief reason for the failure of the operation. A more important cause was the poor preparation by the Pentagon itself. As U.S. experts themselves admit, there was no adequate preparation for operations in the mountains at large altitudes. U.S. forces suffered headaches, weakness, fainting, and were not prepared for the tactics of the mountain fighters. Another serious failure was the lack of adequate understanding of the Afghan culture and habits, lack of comprehension of the mentality of the population. The propaganda war, including mass distribution of leaflets from the air, was a total fiasco. Events such as the bombing of an Afghan religious school, and also repeated events where American forces mistakenly fired upon friendly Afghan forces, led to intense hatred by the population.

Experts think that the Pentagon has a lot of lessons to learn from what happened. Now, the internal situation in Afghanistan is heading toward possible new civil war, *Red Star* concluded.

'Soccer Riots' Expose Raw Anger

Bloody riots in Moscow on June 9, which began as the Russian soccer team was losing to Japan in the World Cup tournament, had less to do with soccer than with the boiling anger of a Russian population, in response to the economic-social collapse of the country. Youth from a crowd of thousands who were watching the game on a large outdoor screen, rampaged near the Kremlin and the State Duma, smashing storefronts, setting cars on fire and battling police. Two people were killed.

In the aftermath, came fingerpointing at the police and accusations against the event's commercial sponsors, for having aired an ad that showed people smashing cars with baseball bats. But there was more to the riot than sports disappointment or excessive drinking. A leading European expert on Russia commented to *EIR* that the reaction was partly predictable, "because it is a national humiliation to lose this way to a traditional enemy, Japan." He added, "But that sentiment combines with something even more fundamental: These riots have a lot less to do with football, than they do with resentment at the hard life 75% of the Russian population is now leading. There is deep anger in Russia, at this process of collapse, especially as little has been done, under Putin, to make things better. He is very active on the foreign policy side of things—war on terrorism, friendship with Bush, and so on—but domestically, in practice, all he is doing, is making deals with the oligarchs, particularly the energy giants, and people are getting very, very angry.

"HIV-AIDS is systematically rising in Russia, scientific capital is being worn away, much of Russia is approaching Third World conditions. The oil and gas conglomerates get richer, but that doesn't trickle down. This gets particularly dangerous, when it combines with insults to national pride. I worry about this explosive combination coming together again, over issues more crucial than football."

Prof. Menshikov Sees Economic Policy Capitulation by Putin

Professor Stanislav Menshikov's commentary in the June 7 *Moscow Tribune* was titled, "Putin Takes Up Budget And Forsakes Growth Policy," referring to the official Budget Message the Russian President has delivered for the year 2003. When Putin took the Cabinet to task earlier this year for failing to deliver respectable growth rates, Menshikov points out, Prime Minister Kasyanov and Economics Minister Gref first ignored him, then stated publicly that "great leaps" in growth were not possible, and that the attempt to achieve them would lead to collapse. Whereas "observers expected a strong counter-attack, if not government reshuffling," Menshikov observes, "Nothing of the sort happened. The budget message signalled retreat. It contained not a word of criticism of government policies and no mention of former demands to accelerate growth."

Menshikov links Putin's posture to Kasyanov's offensive in tandem with "Russian big business—most of it based in export-oriented energy and raw material industries, which are not too eager about faster growth that can come only with the rapid expansion of the domestic market." He writes that Putin is relying on "oligarchic support," politically. At the same time, the insidious advice of former Cato Institute fellow and official Presidential economics adviser Andrei Illarionov has come into play. Menshikov points out that the Budget Message "implies that the government, instead of raising salaries and pensions, should now start reducing 'non-interest expenditure,' which is mostly social—education, health, housing subsidies and pensions," and "claims that excessive government spending is the basic reason for the recent economic slowdown and that cutting government expenditure is the main way to accelerate growth"—super-deregulator Illarionov's argument, which Menshikov rightly calls "nonsense."

Glazyev Blasts Illarionov's Deductive Method of Swindle

In a June 6 interview on Radio Resonance, economist Sergei Glazyev attacked the Presidential Budget Message as a

dangerous watershed—the first time that "officially the budget financing of sectors like education, science, and health care has been called into question." He was referring to the call for reductions in budget spending, other than for interest payments. Glazyev specifically blasted Andrei Illarionov's claim that "paying the foreign debt stimulates economic growth." This is based on the statistical correlations that Illarionov is fond of charting, Glazyev said, which have about as much validity as the statement that "the wind blows hard, because the tops of the pine-trees bend."

World Bank Reported To Seek Privatization of Russian State Savings Bank

According to a report carried June 5 on Utro.ru, the World Bank's annual report on Russia—presented to the relevant Russian institutions in closed session—calls for "a strategy to reform Sberbank," the state-owned savings bank where most Russian citizens deposit any funds they have. The World Bank is said to call for shares in Sberbank's network to be sold, but exclusively to "strategic investors with solid reputations," not "insiders or organizations controlled by, for example, financial-industrial groups." Utro.ru quoted representatives of Sberbank and even of the Russian Central Bank, which is now run by a liberal monetarist, who protested that this means the Sberbank shares should be sold to foreign interests. In numerous proposals by the Russian Academy of Sciences, Duma experts (Sergei Glazyev's various programmatic recommendations, for example), and regional governors (the Ishayev Report), the deposit base of the Sberbank figures rather as the basis for the internal generation of credit to finance real economic growth in Russia. This resource is now targetted by the World Bank, for looting.

MIDEAST NEWS DIGEST

Iraq War Is On, Neo-Cons Say 'Fire Some Generals' Who Oppose the War

"Fire Some Generals," is the New Democrat/neo-conservative *New Republic's* advice to President Bush, in an editorial which was reprinted in the June 9 *New York Post*. The *Post*, owned by Australian Sir Rupert Murdoch, is one of the flagships for the views of the rightwing Likud lobby in the U.S., and the neo-conservatives.

The advice of the editorial has it that Bush should fire the military brass (i.e., the Joint Chiefs of Staff) who have been leaking to the media their opposition to invading Iraq; the piece adds that "timidity is one thing; insubordination is another."

Reflecting that the "Iraq attack is on," is an across-the-board offensive, in a series of op-eds and articles buttressing actions by Administration officials, including Vice President Cheney (see [U.S. NEWS DIGEST](#)) and Defense Secretary Donald Rumsfeld to push for the war. On June 9, *New York Post* columnist John Ringo wrote that, hopefully, Bush won't let the generals turn him away from launching a war on Saddam Hussein. Ringo contends that if Bush hesitates to attack Iraq, the Democrats could take the House of Representatives in the November midterm elections, and this could even cost Bush the Presidency.

A day later, the *Washington Times* reported on its front page that, while Central Command commander Gen. Tommy Franks had said that 200,000 troops, at least, involving five ground-combat divisions, would be needed for the Iraq war, now CENTCOM is studying contingency plans for a "quick war" that would rely on "psychological warfare" to create dissension and revolt in Iraqi ranks against Saddam Hussein. The Rev. Sun Myung Moon-owned *Washington Times* asserts that the "Bush Doctrine"—that is, you are with us or against us—has been transformed after Bush's recent West Point speech to one in which "states that support terror *are* terrorists."

Murdoch's Fox-TV network also was reporting that when Bush "makes the decision" on Iraq, the U.S. military will be ready to strike within 90 days.

Administration Meeting Iraqi Opposition Figures

Well-informed Middle East sources have told *EIW* that Defense Secretary Donald Rumsfeld held secret talks with Kurdish leaders who oppose the Saddam Hussein government in Iraq, prior to Rumsfeld's recent trip to Kuwait and other Gulf countries on his way to India. In Kuwait, Rumsfeld railed against Saddam Hussein as a "world-class liar," and indicated that he himself is *opposed* to United Nations weapons inspectors returning to Iraq, favoring instead ousting Saddam. Other indications show that "Clash of Civilizations" British intelligence agent Dr. Bernard Lewis is in the middle of working over Vice President Dick Cheney to launch a full-scale war against Islamic countries. According to the *Wall Street Journal* of June 14, Lewis met with Cheney to press the case that the U.S. "has gone wobbly" on Middle East policy, by supporting an Israeli-Palestinian peace agreement.

Lewis was one of the architects of the "Arc of Crisis" doctrine that was run by Zbigniew Brzezinski during the Jimmy Carter Presidency, which engineered the overthrow of the Shah of Iran, and the buildup of radical Islamist networks such as the "Afghansi" organizations that became al-Qaeda and Taliban.

At a lower level, State Department officials met with several Iraqi opposition groups some time around June 12 to attempt to put together a unified opposition. The leading group, the Iraqi National Congress (INC), was cut off from State Department funds that were mandated by Congress because of financial reporting irregularities. INC head Ahmed Chalabi is a known huckster, indicted in Jordan for defrauding his own bank. Despite Chalabi's background, he was included in the leadership meeting.

Iraqi Opposition Gathers at American University

On June 8, an all-day conference at American University brought together the gaggle of Iraqi "resistance groups," including the Patriotic Union of Kurdistan (PUK) and the Kurdistan Democratic Party (KDP), to discuss a post-Saddam "federalist" Iraq. The conference was entitled "Iraq's Kurds: A Key to Stability in Iraq."

The first panel consisted of "regional perspectives" and included a Kuwaiti, an Iranian, and a Turk, all of whom expressed concerns about a breakup of Iraq. While nobody was openly proposing Kurdish independence, it was clear that the organizers envisioned some form of federalist entity evolving, essentially, carving up Iraq into a Kurdish north, a Sunni center, and a Shiite south.

Peter Galbraith, now with the National Defense University, but a lifelong fomenter of ethnic conflict (he briefly served as a "member" of the East Timor government), was the real wild card in the pack. While most of those present skirted the issue of a U.S. military move against Iraq, Galbraith upbraided people for avoiding the subject, and claimed that the issue was, indeed, "impending U.S. operations against Iraq."

Alan Makovsky, an aide from the House International Relations Committee, another supporter of "regime change" in Iraq, also fretted that the biggest problem the U.S. would have, which would be to convince the Turks to support military action. The Turkish speaker, Ozdem Samberk, a former adviser to President Turgut Ozal, had warned clearly against opening "a Pandora's box" in the region through military actions against Saddam.

One afternoon panel consisted of representatives of the (Shiite, Iran-based) Supreme Council for Islamic Revolution in Iraq (SCIRI), the Iraqi National Accord, the Kurdish PUK and KDP, and Sharif Ali bin Al-Hussein, the heir to Iraq's throne, who represented the Iraqi National Congress. INC chief Ahmed Chalabi had been invited, but was unable, or unwilling, to come. On the surface, the mood was very chummy, with the Iraqi groups promising to give Kurds full representation in "the new Iraq," and the Kurdish groups promising to put their differences aside in order to battle the common enemy.

Tehran Conference Maps Out Continental Rail Lines for Development

Peace through economic development is a familiar theme to readers of economist Lyndon LaRouche, particularly centered around the development of the Eurasian Land-Bridge as a driver for global economic recovery.

A conference in Tehran, Iran in early June brought together representatives from over 30 nations, including transport ministers and deputy ministers from Russia, India, Afghanistan, Syria, Georgia, Sri Lanka, Uzbekistan, Romania, Turkey, Iraq, Kazakhstan, Bulgaria, Belarus, Armenia, and Azerbaijan, to address the particulars of continental rail lines going from north to south, and going from Iran, the crossroads of the region, east to Eurasia. Also gathered in Tehran for the conference were representatives of 20 international organizations, including the World Bank, UN, international road transportation agencies, railways, port and harbor unions, to name a few.

The title of the conference, opened by Iranian President Khatami, was "Iran: Opportunities for Transit." Khatami called for foreign and domestic investment in the sector, as Iran is "determined to exploit its transit privileges in order to promote cooperation and coexistence in the region as well as the world." The north-south transit corridor was slated to be at the center of the conference.

Syrian Minister of Transportation Mukram Ubeid told the Iranian news agency *IRNA* that he would be discussing ways and means of expediting an Iran-Syria railway through Iraq. Syria has allocated \$7 billion for a 150-km rail stretch between the Syrian city Deir ez Zor and the Iraqi border city of al-Qaem. The line between Iran and Syria requires construction of a 40-km stretch between Khorramshahr and Al-Basrah.

At the inaugural ceremony for a second rail line from Tehran-Mashhad, which goes into Central Asia, President Khatami lauded the efforts of managers, engineers, and workers in expanding the national railway grid, which has become a priority of Iran. "Iran has linked the Central Asia to the Caucasus and Europe on the one hand, and has connected them to the Persian Gulf and the Sea of Oman on the other," he said, adding, "The country is a route linking southern seas and Europe." Khatami said, according to *IRNA*, that such a situation was "unique in the world," and added that the strategic Bandar Abbas-Sarakhs rail line would be operational in two years. This will link Central Asia and the Persian Gulf and the Sea of Oman.

War Crimes Expert Exposes Sharon Crimes in Lebanon and Jenin

Chibli Mallat, the Chief Counselor in the Belgian war crimes trial against Ariel Sharon, gave a chilling briefing on Sharon's 1982 war crimes in Lebanon, and asked his Washington, D.C. audience on June 11, "Why is President George W. Bush meeting so frequently with a twice-indicted war criminal, when he will not meet with President Yasser Arafat?" Mallat, who teaches at Université Saint Joseph in Beirut and graduated as an attorney from Georgetown University in Washington, returned to the U.S. to break the press blackout in this country on the indictment of Sharon on three counts for his role ("like Hitler") in ordering the genocide against Palestinians in the Sabra and Shatilla Palestinian refugee camps in 1982. Mallat spoke at the Center for Policy Analysis on Palestine in Washington.

Descriptions of Mallat's legal arguments and the background on the Belgian case against Sharon can be found using the Search engine of www.larouchepub.com.

At the June 11 Washington event, Mallat explained why Israel was so fearful of a United Nations Commission of Inquiry into the events in Jenin. He said that it had been the Director General of the Israeli Defense Department, who is an attorney, who warned Prime Minister Sharon not to accept even the compromise Commission of Inquiry into events at Jenin, because he warned that it would lead to a trial on the basis of war crimes violations of the Fourth Geneva

Convention.

Mallat said there was no question of large-scale, deliberate murder of civilians, but said that an area the size of 20% of Jenin had been bulldozed without first checking if there were people in the houses being demolished. However, he stressed that such a case requires "serious investigation"—including the gathering of "forensic evidence"—adding, "It is just a matter of time before one or more indictments are brought against high-ranking IDF [Israel Defense Force] officers and other soldiers."

Jewish Leaders Warn, 'We Cannot Be Occupiers'

Both in Israel and the United States, Jewish leaders are voicing a deep concern about Israel's fascist brutality toward Palestinians.

In Israel, two prominent officials briefed the convention of the Meimad Party, which has two members of the Knesset (the Israeli Parliament), and both called for Israel to dismantle all settlements in the Occupied Territories. Former Shin Bet chief Ami Ayalon and Deputy Foreign Minister Michael Melchior were the speakers.

Ami Ayalon said: "The need to leave Judea and Samaria is not connected to the security issue but to the continued existence of the Jewish people in the land of Israel.... If we don't leave the territories, either we will no longer be a democratic society, or we will not be the home for the Jewish people."

Melchior said: "We need to leave the settlements as soon as possible, with or without an agreement with the Palestinians.... We simply cannot afford to be an occupier in today's world." Both also cited demographics, noting that the average age of Palestinians is 13, while that of Israelis is 40.

In New York, Henry Siegman, who is the Council on Foreign Relations' Senior Fellow on the Middle East, gave an interview published in the June 13 *New York Times*, where he denounced the current Jewish lobby trend toward making a pariah of any moral Jewish leader who opposes Sharon et al. Siegman and his family had to flee the Nazis at the time of the British retreat from Dunkirk; they fled through Vichy France to Casablanca, and eventually to the United States. He says what he went through makes it easier for him to understand what it is like to be a Palestinian living under the "fear and humiliation" of Israeli occupation.

Siegman, who was ordained a rabbi, had been a student of Rabbi Abraham Heschel, with whom he later marched in the U.S. civil rights movement. Heschel taught him to think of "truth and justice as the keystone to Judaism," Siegman said.

In contrast, Siegman says, "American Jewish organizations confuse support for the state of Israel and its people with an uncritical endorsement of the actions of Israeli governments even when those governments do things that in an American context these Jewish organizations would never tolerate. It is inconceivable that a Jewish leader in America 20 or 30 years ago would be silent if a political party in the Israeli government called for the transfer of Palestinians—in other words, ethnic cleansing. Today, there are at least three such parties, but there has not been a word of criticism from American Jewish organizations."

Moussaoui Trial: British/U.S. Tracked Him Before Sept. 11

Zaccarias Moussaoui, the so-called "20th hijacker," told the Federal court in Alexandria, Va., "This government was following me since I entered the United States of America, and they were engaging in covert operations against me." Moussaoui made his statement in a June 13 hearing where he fired his court-appointed lawyer and was granted the right to

act as his own attorney. At the time of the Sept. 11 attacks, Moussaoui, a French national who had lived in Britain and France, was in a U.S. prison on visa violations, and had been there for some time.

He used his June 13 Virginia court appearance to reveal for the first time, "My address [was] surveilled by British armed police in 1998, okay, 1998 following the Embassy bombing." In August of 1998, car bombs exploded outside of U.S. embassies in Nairobi, Kenya and Dar es Salaam, Tanzania with hundreds killed. London press sources have told *EIR* that British surveillance of Moussaoui prior to his departure for the U.S. has never become an issue, due to the discreet "professionalism" of the British services. Moussaoui claimed he was not linked to the other 19 alleged hijackers and that "material evidence" could prove his innocence, which is important, he said, "because the people of America, they want to know who done September 11th and if I am responsible."

Although there is at this point no reason to believe Moussaoui would have information about the perpetrators of the Sept. 11 attacks, nor clarity on who ultimately was behind his U.S. flight school activities and the money transfers to him, he might have information pointing to a "false trail," designed to protect the actual authors of the attacks.

Asia News Digest

Car Bomb Kills 11 Outside U.S. Consulate in Karachi

An extremely powerful car bomb struck the U.S. consulate in Karachi on June 13, killing 11—all Pakistanis—and injuring 45 others. No Americans were reported killed, but one Marine guard was injured. The United States has closed down the consulate, and President Bush said that the situation remains dangerous in Pakistan.

The bomb went off the day after U.S. Secretary of Defense Donald Rumsfeld left Pakistan, after saying he had no proof that al-Qaeda is operating in Kashmir. "The facts are that I do not have evidence, and the United States does not have evidence, of al-Qaeda in Kashmir," Rumsfeld said after his meeting with Pakistani President Pervez Musharraf. Within 12 hours of Rumsfeld's statement, however, British Foreign Secretary Jack Straw told the press that Britain believes that al-Qaeda has moved into the Pakistani part of Kashmir.

No statement has yet been issued by President Musharraf following the Karachi explosion; Musharraf was the recipient of a glowing tribute recently from David Ignatius on the commentary page of the *Washington Post*, in a column that identified the Pakistani President as the "most courageous world leader today."

Thailand Will Clean Out NGOs On Myanmar/Thai Border

Thai Prime Minister Thaksin Shinawatra announced that the nest of non-governmental organizations (NGOs) on the border with Myanmar are an obstacle to reconciliation. The NGOs, centered around George Soros's Burma Watch, the U.S. government-funded International Republican Institute (IRI), and the UN, work among the various refugee networks from Myanmar, and have historically been the primary route for foreign efforts to bring down the Myanmar government. Thaksin named these groups, and said they "should not interfere, because they will cause problems for reconciliation attempts."

Thaksin announced that the "buffer zone" policy favored by NGOs, of sponsoring ethnic tribes near the border as a buffer between Thailand and Myanmar, is not and will not be supported his government.

The past two weeks have seen fiery rhetoric from the Myanmar government in Yangon, accusing Thailand of supporting Shan rebels, including shelling across the border. The campaign appears to be timed with a massive Myanmar military

offensive against the largest remaining armed drug army still fighting Yangon, the Shan State Army (SSA). Thaksin has responded by instructing the military not to "overreact" to the Myanmar verbal assault, or to Myanmar's closing of the border.

Thaksin's pledge to clean out the drug-running, terrorist-supporting Soros network has earned him hysterical denunciations in the press in Thailand, and will undoubtedly provoke international attacks on Thailand. Already, the SSA chief, Col. Yawd Serk, has been featured in an interview in the anti-Thaksin *The Nation* of Bangkok (partly owned by Wall Street's Dow Jones corporation), whining that Thaksin was deserting them in the just cause of the SSA (drugs and subversion). *The Nation* is also attempting to fan dissent between Thaksin and the Thai military.

Fight Heats Up in Indonesia over IMF Policy

An open fight over International Monetary Fund diktats is heating up in Indonesia, even as creditors continue treating the country gently. While it is clear that Indonesia, with \$130 billion in unpayable debt, could be turned into another Argentina if the IMF so chose, the international institutions and private creditors are continuing to grant a virtual debt moratorium policy to the country, even as Cabinet ministers are denouncing their "conditionalities," and the government refuses to carry out some of their most important demands.

While the special treatment of Indonesia is related to the war on terrorism and other geopolitical concerns, it appears more and more likely that the financial oligarchy simply can't deal with a blowout in Asia at this time. In April, debt due from Indonesia this year and next, to governments and international institutions was rolled over by the so-called Paris Club, both principle *and interest* (an unheard-of move—essentially a debt moratorium), totalling \$5.4 billion. That same deal was accepted by the private banks at the "London Club," involving such banks as HSBC and Tokyo-Mitsubishi, for another \$1.3 billion in debt service. On June 13, the IMF accepted another Letter of Intention, and agreed to extend the next tranche of the IMF agreement, \$340 million.

If Indonesia were strictly following orders, this would be understandable. But in the last week alone:

*Planning Minister Kwik Kian Gie publicly called for Indonesia to break from the IMF, and was supported by the Vice President and the Speaker of the Parliament. This has caused turmoil in political circles, with no one sure where President Megawati Sukarnoputri stands. Coordinating Minister for Economics Dorodjatun Kuntjoro-Jakti called on June 6 for an end to "blind criticism of the IMF," while the country is still asking for debt restructuring.

*However, at the same time, Dorodjatun also announced that the selloff of 51% of the government-owned Bank Niaga—one of the IMF's foremost demands—was off the table, because the bids were a fraction of the market price.

*Several other banks and companies on the IMF "must sell" list have been removed or given more time.

Malaysia Deputy Prime Minister Warns of Threat to Oil Supplies

Malaysia's Deputy Prime Minister Abdullah Ahmad Badawi warned ASEAN nations that they have to prepare for disruptions to their oil supplies, due to the danger that the "war on terrorism" is going to expand.

Speaking at the opening of a conference on oil and gas in the region, held in Kuala Lumpur, Badawi said that the possibility of a "much wider and extended war to weed out terrorism is a frightening prospect," which is contributing to the current volatility in global oil prices. "The current risk of supply disruptions is thus very real, and may perhaps carry greater repercussions than the 1973 oil embargo," he said.

Badawi said that the ASEAN Petroleum Security Agreement should be reviewed to ensure adequate energy supply during oil shortages. It should include increasing oil reserves in Asia. "It is high time that Asia builds up its own system of energy security through more regional partnerships and cross-border trading arrangements."

Southeast Asia pumps only around one-third of its crude requirements of some 20 million barrels per day, and is dependent on the Middle East for 70-80% of imports.

China Daily: Concern Over Russia Policy Towards U.S. and Eurasia

A June 10 commentary in *China Daily* reflects growing concern over Russian policy towards the U.S. and Eurasia. Written by an analyst at the China Academy of Social Sciences, the piece notes that assessing the current Chinese-Russian relationship has become a "hot issue." Strategic cooperation between China and Russia had never been aimed at any third country, the piece says, and would even benefit the United States, were the U.S. "willing to give up its unilateralism to a certain degree."

However, it adds, "the current change in Sino-Russian strategic cooperation has been caused by the policy adjustment of the Russian government and also the alteration of the international situation. The Russian government has stopped talking about the creation of a multi-polar world and opposition to unilateralism, the former theoretical base of Sino-Russian strategic cooperation. The U.S. withdrawal from the 1972 Anti-Ballistic Missile Treaty has also changed the parameters of cooperation between Russia and China over maintaining strategic stability.

"The U.S. military deployment in Central Asia for operations in Afghanistan after the Sept. 11 event, has undermined the functioning of the Shanghai Cooperation Organization and complicated regional security cooperation between China and Russia."

But, so far, "Russia has not accepted the principle of a unipolar world and the new relations between Russia and NATO have set certain restrictions on NATO."

The statement continues: "It should also be emphasized that the underlying reason for the limitation of Sino-Russian strategic cooperation lies in the limits of the two countries' national strength. They cannot satisfy their own pressing strategic needs of security and development merely through their bilateral cooperation. Thus, Sino-Russian strategic cooperation cannot be *the most important tool used to realize their foreign policy goals* [emphasis added].

"After Sept. 11, the focus of Sino-Russian strategic cooperation has shifted from global and regional-level cooperation to bilateral cooperation.... At the same time, the mechanisms and potential for strategic cooperation on global issues and regional security still exist."

The statement concludes: "Undoubtedly, Russia will by no means yield to another's will, while the United States will not play on equal terms with other members of the international community and always wants to force its own will upon others. Thus Sino-Russian strategic cooperation, based on common needs and interests, will develop as a defense against power politics and unilateralism. The effectiveness of this strategic cooperation will depend on not only common needs and interests, but also the cooperative diplomatic capacity of the two nations."

China To Help Fight Maoists in Nepal

Nepal's former Prime Minister and president of the political party the Nepali Congress, G.P. Koirala, told the state-run

news agency, *Rastria Samachar Samiti*, that the "Chinese have promised to provide all the possible help in the fight against the terrorists." Koirala was in Beijing for a week.

Although Koirala did not specify what kind of assistance China would provide, the statement itself will cut some of the fog. A section of the Nepali Congress, the largest political party in the country, claimed earlier that the Maoists in Nepal were backed by Beijing against Nepal's monarchy. Former Prime Minister Sher Bahadur Deuba, a senior Nepali Congress leader, had been in Washington seeking American help to counter the pro-China Maoists. President Bush has promised \$20 million.

Subsequently, Nepal's monarch, King Gyanendra, dissolved the Parliament with the help of Deuba. The King's plan was to continue with the state of national emergency and restore absolute monarchy in Nepal. Koirala responded strongly against the move and has expelled Deuba from the party. It is evident that Koirala's statement will now pressure King Gyanendra, and others, to seek more help from Washington.

AFRICA NEWS DIGEST

NEPAD Alliance Designed To *Block*—Not Help—Development

Kenya stands to lose nothing by not being a member of the New Partnership for Africa's Development (NEPAD), said Central Organization of Trade Unions Secretary General Francis Atwoli on June 9. He charged that NEPAD lacks the African leaders' approach to economic development found in the Lagos Plan of Action on Africa's Economic Recovery, issued in Lagos, Nigeria in 1981.

"The original idea for Africa's economic advancement mooted in Lagos," Atwoli said, was scuttled by the World Bank and IMF, as it had the right approach to the economic problems actually facing many African countries. He told the Nairobi-based *East African Standard* that NEPAD was established to kill the *original* idea of the African Union, which had set objectives which could have delivered the African continent from its current problems. Atwoli made the remarks just a week after a three-day African trade-union conference in Nairobi, where 100 representatives from 56 trade unions in 44 countries met to work out a continental survival strategy.

Atwoli noted that the initial plan for an African Union, promoted by Libyan leader Muammar Quaddafi, called for the North African countries, which are endowed with oil reserves, to sell oil cheaply to the rest of Africa, while the rest of Africa would sell agricultural produce to the northern states. "This will not be realized, as South Africa is now playing the good boy to the West while jeopardizing efforts by Africa to economically liberate itself through inter-trade within the continent. The NEPAD way is a vicious cycle of exploitation of poor developing countries by the West," said Atwoli.

He alleged that the group of four (G-4), now known as the powerful four—South Africa, Senegal, Nigeria, and Algeria—have been promised \$80 billion each, yet Kenya and Libya were being denied this aid, because that would mean giving the two a jump-start in their economic recovery.

Anglo-American Networks Move Against Sudan Peace Plan

Despite months of discussions between the U.S. and Sudan carried out by Bush Administration representative John Danforth, the former Senator, to seek a peace settlement in Sudan, Anglo-American/utopian networks in the U.S. Congress are working to keep Sudan destabilized, and painted as an enemy nation.

The official *SUNA* news agency in Khartoum reported that Sudan's Presidential peace adviser, Ghazi Salah Al-Din Al-

Atabani, criticized certain U.S. organizations for their "enmity" toward Sudan, displayed at U.S. Congressional hearings on June 5. The Sudanese government had officially asked to participate in the hearings, and asked for the participation of Americans of moderate opinions, but was turned down. Sudan's Ambassador to the U.S., Khidr Harun Ahmad, had hoped to moderate the "flagrant hostility" of most of the participants, and provide balance in the session.

SUNA quoted Salah al-Din June 8 as saying that certain groups hostile to Sudan want to confuse American policy towards the country, and derail progress achieved by U.S. peace envoy Danforth. He noted that some of the institutions of the U.S. Administration, such as the State Department's Agency for International Development (AID), were either confused or dishonest. AID had called for "confiscation [erosion] of the sovereignty of the Sudan government," he said. The demands included in the AID testimony to Congress would be rejected by the Sudanese government, Salah al-Din said.

Long-time Sudan-hater Roger Winter, now AID assistant administrator, testified that Khartoum's operational barriers to the delivery of humanitarian assistance in Sudan are "so consistent as to amount to a deliberate strategy."

The deputy director of AID and Assistant Secretary of State Walter Kansteiner both testified, and according to *SUNA*, "said there is cooperation between Sudan and the United States in the humanitarian fields and progress in the peace field which was achieved through the efforts of Sen. John Danforth," referring *inter alia* to the ceasefire in the Nuba Mountains and the agreement to protect civilians. Kansteiner said the White House is opposed to sanctions against oil companies doing business with Sudan because it would be "a precedent for political interference in U.S. capital markets," according to UN Integrated Regional Information Networks.

At issue in the Senate hearings was the so-called "Sudan Peace" bill passed by the House of Representatives a year ago, which includes sanctions against Sudan and the oil companies and \$10 million in support for the rebel movement in the South.

Sudan Aids U.S. in Terrorism Arrest

Former Clinton Ambassador to Sudan Tim Carney, was quoted in the *Washington Post* of June 14, saying that Sudan has been totally cooperative with the United States in the war on terror. Sudan has arrested Abu Huzifa, a suspected al Qaeda-linked terrorist, at the request of the United States, in the latest in a string of Sudanese anti-terror operations. Abu Huzifa is now in U.S. custody in a "neighboring country," where he is being interrogated, and is reportedly cooperating. He has detailed his infiltration of Saudi Arabia, to profile vulnerability of U.S. troops to terrorist attack, according to the *Washington Post*. He described how he fired a SAM missile at a U.S. warplane near the Prince Sultan Air Base, one of the headquarters of the U.S. Afghan military operations.

The Sudanese efforts to stop terrorism create an obstacle to those in the U.S. who want to keep Sudan on a list of "enemy nations" that support terrorism. The anti-Sudan efforts have been centered around private organizations such as the Christian Solidarity destabilizers of British Baroness Caroline Cox, and U.S. Congressmen Frank Wolf (R-Va) and Donald Payne (D-NJ).

U.S. Congressman Pushes Recolonization of Africa

Congressman Ed Royce (R-Calif), who chairs the U.S. Congressional Subcommittee on Africa, says the "Chad model" of recolonization should be applied to Angola. Royce's Subcommittee planned hearings June 10-14, on securing Angolan oil for the United States, working from the National Intelligence Council's Global Trends 2015 (issued December 2001), Vice President Dick Cheney's National Energy Policy Report, and a report of the African Oil Policy Initiative Group (AOPIG) entitled, "African Oil: A Priority for U.S. National Security and African Development."

AOPIG is a consortium of policymakers and oil companies; the Jerusalem-based think tank that also operates in Washington, the Institute for Advanced Strategic & Political Studies (IASPS), run by Robert Loewenberg, Angelo Codevilla, William R. Van Cleave, Alvin Rabushka, and David Wurmser, is also involved. IASPS is a neo-conservative outfit tied to the racist Likud networks in Israel, and is financed by the Richard Mellon Scaife foundations in the United States.

Royce has issued a statement calling for the application to Angola of the model just established in obtaining oil from Chad through the Chad-Cameroon Pipeline Project. There, "the government of Chad has agreed to earmark a large percentage of [its oil] revenue to spending on education, health, and infrastructure. Aggressive outside auditing of the oil books is planned." The World Bank is also involved. It looks as if the U.S. State Department, the oil companies, and the World Bank will effectively control Chad's economy.

Congressman Royce adds, "There appears to be a chance now to counter the Angolan government's pilfering of oil revenues, which has gone on for years."

The Royce Subcommittee also held hearings in 2000 on Africa as a potential major oil producer.

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