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EDITORIAL

Defeat Bank of England's Attack on the Dollar, with No Trade War

Sept. 2 (EIRNS)—The U.S. dollar is overvalued. President Donald Trump clearly knows this and is upset by it, in particular relative to the Chinese yuan currency. But the President is playing directly into the hands of the European central bankers' attempted "regime change," when he demands the Federal Reserve copy their negative interest rates. They stifle productive investment and encourage the City of London and Wall Street's unregulated speculation "off-balance sheet." He is not acknowledging why the dollar is too strong.

There is the immense \$5.5 trillion daily volume of unchecked and unregulated currency speculation, exploded from \$2 trillion a day in 2004, and virtually all divorced from actual trade. There is the central banks' incompetent negative-rate policy, which makes even record-low U.S. Treasury interest rates look high by comparison.

The dollar's overvaluation is underlined by the fact that labor productivity in China, according to standard measures, has been growing more than twice as fast as in the United States for nearly 30 years. This should have continuously strengthened the value of the yuan against the dollar. This is true for simple labor productivity (average growth rate 6.5%/year in China vs. 2.7%/year in the U.S., since 1992), and for total factor productivity, which attempts to measure the impact on growth of technological progress in industry and in building new economic infrastructure (average growth rate 3.16%/year vs. 1.6%/year).

With China's recent decades of very large and continuous investments in new, high-technology infrastructure—and the innovations and breakthroughs necessary to build it—this stronger productivity growth is not surprising.

We can illustrate the same overvaluation through another basic comparison. The average income per capita of an individual in the United States is about two and one-half times that of a person in China. But if the American were to somehow receive that American average income in Chinese yuan—at the recent exchange rate between the two currencies—and spend it while living in China, his or her “local purchasing power” for a market basket of life's necessities would be, not two-and-a-half times, but just a little under twice that of the average Chinese earner next door (according to the CEIC Data firm in Hong Kong, the Organization of Economic Cooperation and Development, and others whose studies of purchasing power in the two countries agree).

These comparisons suggest that uncontrolled speculation has carried the relative value of the dollar too high.

But the United States and China could make a nation-to-nation agreement at any time to establish a fixed exchange rate for their currencies with an up-valuation of the Chinese yuan, and removing all their new tariffs and tariff increases of the past 18 months. They could keep the new currency exchange rate stable by establishing exchange controls to stop the speculative inflows and outflows of currency.

And both nations could establish a strict Glass-Steagall separation of commercial banking and lending, from speculative trading and derivatives activities of investment firms. These speculations put tremendous pressure, not only on exchange rates, but on interest rates. And since 2006, this has been almost continuously downward pressure, as the speculators have profited by riding along the central banks' policy track.

China has legislated Glass-Steagall separation since 1994, but the regulations of it have been loosened and need to be re-established in full. The United States Congress has pending legislation to restore the Glass-Steagall Act, which requires the President's encouragement to move. As presidential candidate Donald Trump proposed in 2016, "Pop the 'gigantic bubble on Wall Street' "; and "Enact a 21st-century version of Glass-Steagall."

Such a U.S.-China agreement on fixing exchange rates and separation of speculative banking from commercial banking, if made with the mutual intention of reversing the currently worsening trade war, would increase both the ability and the incentive for China to invest some of its foreign exchange holdings alongside American investors in a U.S. national credit institution for new economic infrastructure in the United States. These are two of the basic principles laid out by Lyndon LaRouche in 2014 as "The Four New Laws To Save the U.S.A. Now! Not an Option: An Immediate Necessity" (see *EIR*, June 13, 2014). They are re-establishing Glass-Steagall and creating Hamiltonian national banking institutions to invest in infrastructure and manufacturing.

A U.S.-China agreement would effectively invite other major economic and technological powers to join in a new international fixed-exchange-rate

system to replace speculative flows with investments in new technologies and capital goods, particularly into developing countries.

THE NEW GLOBAL ECONOMIC ORDER

Schiller Institute Holds Seminar on ‘Role of the BRI in Peace and Stability in West Asia and Africa’

Sept. 2 (EIRNS)—On Aug. 29, the Schiller Institute hosted a high-level seminar in Berlin, to provide a truthful report on the significance, and the progress, of the Belt and Road Initiative (BRI), especially regarding developments in Southwest Asia and Africa. Forty-five people were present, including representatives of the Mittlestand, diplomatic community, and other institutions. A visiting delegation of scholars from the Chinese Academy of Social Sciences (CASS), an important academic organization and research center, presented papers on the role of the BRI in stabilizing the region through economic development. A common theme of virtually all presentations was that, for peace, it is necessary there be a commitment to real economic development, centered on advances in science and application of new technologies.

Moderator Stephan Ossenkopf from the Schiller Institute opened the event by emphasizing that there is an urgent need for a “rational dialogue” on what the Chinese are actually doing, as opposed to the negative reports in the Western media. The BRI is not a unilateral, imperial project, but one which is comprehensive and inclusive.

The keynote, from Institute Chairwoman Helga Zepp-LaRouche, expanded on this, in which she asserted that the BRI is “the most important strategic policy on the agenda.” The speed of its growth in the last six years has been amazing, she said, and is of particular importance for rebuilding the war-torn nations of Southwest Asia, and overcoming the suppression of nations in Africa, where Europe could have contributed to their industrialization, but obviously has not. Instead of allowing the opponents of development to turn China into an “enemy,” it must be seen that what China is doing is necessary for peace and stability, and should be joined by

Western governments, especially the United States. Reviewing the present strategic crisis, which has worsened due to the unleashing by the British Empire of destabilizations around the world, including against China, Iran, etc., Zepp-LaRouche said that Europe has an important role to play, were leading nations to free themselves from geopolitical strategic orientation. For example, she spoke of the tremendous potential for German small and medium-size enterprises (SMEs) in joint ventures in third countries, explaining that the policies of the present government do not favor that potential. She emphasized that key to creating change in the Trans-Atlantic region is to inspire optimism, by an emphasis on the potential unleashed by especially the new initiatives in space exploration. We must think at least 50 years ahead, she said, and reject the pessimism which is being spread by the Greenies and the financiers who back them.

The speakers from the CASS were: delegation leader Professor Tang on “China’s Concept on Security and Middle East Security,” who provided a broad view of the approach of the BRI; Professor Yu, who spoke on “BRI and the Peace between Palestine and Israel,” emphasizing the importance of economic development for Palestine, which is essential to realize the two-state solution to the ongoing crisis; Professor Wang, on “BRI in the Gulf Cooperation Council and Gulf Security”; Dr. Wei on “Iraq’s Reconstruction and China’s Role,” in which he highlighted the difficulties in rebuilding a nation that was subjected to a war which destroyed much of its infrastructure; and Dr. Zhu, who spoke on “BRI in Egypt and China-Egypt Cooperation,” presenting an optimistic evaluation of how the cooperation between the two states has provided tangible benefits.

Other speakers from the Schiller Institute were Hussein Askary, co-author of the Institute’s special report “Extending the New Silk Road to West Asia and Africa,” who gave an impassioned report on progress of the BRI in the two regions; and Claudio Celani, whose report on the February 2018 Abuja conference on replenishing Lake Chad and the Transaqua project, provided a concrete picture of what is possible with international cooperation—but also the obstacles created by international financial institutions and their geopolitical strategies which must be overcome.

There were questions from the audience after each presentation, evidence of a hunger for real solutions, and a desire to draw out more of the thinking of the representatives from the CASS. Several questions were directed to Helga Zepp-LaRouche, including one on Malthusianism, another on the India-Pakistan crisis.

U.S. POLITICAL AND ECONOMIC

Columbia University President Blasts FBI Demand for Surveillance of Foreign Students

Sept. 2 (EIRNS)—Lee C. Bollinger, president of Columbia University in New York City, rebuts the FBI's demand that Columbia police itself to prevent the theft of "intellectual property" by foreign students, in an article on the Sunday Opinion page in the *Washington Post* on Sept. 1, titled, "No, I Won't Start Spying on My Students."

Law enforcement is trying to stop the transfer of "intellectual property" to foreign rivals by "encouraging U.S. academics and administrators to develop 'more robust' protocols for monitoring foreign-born students and visiting scholars—particularly if they are ethnically Chinese," Bollinger says. Such policing puts economic and political concerns into "fierce conflict with First Amendment freedoms."

Bollinger acknowledges that academic research in national security areas such as cybersecurity is sensitive, and, likewise, academic research in collaboration with U.S. companies which can be a target of "unlawful technology transfers."

Yet "only a fraction of the research conducted on a campus is 'secret,'" he says. The reality is that academic research is meant to be shared, in order to advance human progress. So, a foreign national doesn't need to physically come to the United States to find new U.S. discoveries: he or she can read academic journals or visit the U.S. Patent Office website, or type words into a search engine.

“American higher education is the envy of the world not in spite of, but because of, its unrivaled commitment to openness and diversity,” writes Bollinger. “At Columbia University, where I am president, thousands of students and faculty represent more than 150 countries.” University culture is incompatible with systematic scrutiny, and even law enforcement officials who visited Columbia have offered only advice like “be vigilant,” rather than claiming to have remedies. The surveillance of foreign-born scholars is a wrong solution, he writes.

Bollinger suggests a more effective approach, also backed, he states, by the Commission on the Theft of American Intellectual Property: To expand the number of green cards for U.S. residency awarded to foreign-born graduates, especially in fields of science, technology, engineering, and mathematics; many would prefer to remain in the United States and work for U.S.-based companies or labs after graduation.

“The mandate of our colleges and universities is to pursue open, robust inquiry across a wide range of topics. Our institutions of higher learning should do more—not less—of what made the United States the most innovative nation in the history of the world,” Bollinger concludes.

Democrats Threaten To Block Expansion of Project Artemis

Sept. 2 (EIRNS)—The NASA budget for FY2020 will be marked up this month in the Appropriations subcommittees for aeronautics and space of the House and Senate. There is a significant possibility House Democratic committee chairs will oppose the funding of Project Artemis’ goals, as expanded by President Donald Trump’s order in March, for FY2020 which begins Oct. 1, 2019.

Politico’s space page reported Aug. 9: “The two-year budget deal lawmakers passed before fleeing for August recess didn’t set a top line funding level for NASA. But Casey Dreier, a senior space policy adviser at the Planetary Society, is predicting it’s not great news for the space agency. If NASA gets the anticipated 4.5% increase, its fiscal 2020 budget will be about \$22.5 billion, Dreier estimates. That’s nearly the White House’s

request of \$22.6 billion, which includes a boost for a 2024 Moon landing....”

The NASA appropriations level recommended in the budget bill that passed the House, is \$22.3 billion, which restores cuts in other programs in Trump’s budget, but thus far does not fund the \$1.6 billion increase asked for Project Artemis in FY2020. The overall amount would have to be increased.

Rep. José Serrano (D-NY) is chair of the Appropriations subcommittee which oversees NASA. In his opening statement at a July 24 hearing he said, “While I support a continued human presence in space, I remain concerned about the estimated cost in excess of \$20 billion over the next few years to unnecessarily speed up by just four years the schedule for returning American astronauts to the Moon.” Trying to implicate the ranking Republican Russ Aderholt (R-AL), Serrano added, “Mr. Aderholt and I are big supporters of NASA. I just disagree with spending this money on moving something up a couple of years. It’s not that we oppose going to the Moon.” Later in the hearing, he demanded, “Is it even technically possible, financially responsible or necessary to launch a manned Moon mission four years early at an additional \$20 billion cost simply to meet a political deadline?”

This is environmentalist sleight-of-hand. The Moon landing would not cost less if scheduled for 2028, but more. And more likely, as the “Moon-Mars someday missions” of both Presidents Bush 41 and 43 showed, it would be dropped “due to delays,” etc. and not happen at all.

COLLAPSING WESTERN FINANCIAL SYSTEM

Falling Profits of U.S. Corporations Point to Recession

Sept. 2 (EIRNS)—A report on U.S. corporate profits has been done by Director of Global Economic Research Joseph Carson of the big Alliance Bernstein wealth management firm, based on data just released by the U.S. Bureau of Economic Research. Carson finds that operating profit margins

(operating profit as a share of revenue) have declined overall by 40% in the past five years 2015 through 2019 so far. It is “a true earnings recession,” says Carson, “with the potential to trigger cuts in investment [it already has—ed.], inventories, employment and then consumer spending.”

Further, such a drop in corporate profit “has *always* preceded recessions in years past.... The profit and margins data shows how vulnerable the economy is at the present time, *especially with business leverage [debt] at record highs*” (emphasis in original).

The plunge in profit margins has been masked not only the huge corporate tax cut that took effect Jan. 1, 2018—which enabled after-tax profits to rise during that year only—but by the equally huge wave of stock buybacks financed by that tax cut and by extra debt. Buybacks both increase debt and reduce the number of a company’s shares outstanding, and companies always report their profits as per-share of stock outstanding!

In another of many industrial decline markers now showing in the U.S. economy, refineries have processed 257,000 barrels per day (bpd) less oil in the first seven months of 2019 compared to 2018, according to the Energy Information Agency and reported by OilPrice.com. This has not resulted in any decline in oil product stocks, showing that there has also been a drop in economic demand—even through this year’s peak driving season—with no significant change in prices to explain it. The biggest factor in this refining drop was the closure in May of a large Philadelphia refinery complex in bankruptcy liquidation. But processing also fell by 87,000 bpd in the Midwest, 15,000 bpd on the Gulf Coast and 45,000 bpd on the West Coast.

SCIENCE AND INFRASTRUCTURE

India Gets Closer to First Lunar South Pole Landing Sept. 7

Sept. 2 (EIRNS)—The Indian Space Research Organization (ISRO) announced that its Vikram Moon lander had successfully separated from

the Chandrayaan-2 orbiter, and is orbiting the Moon itself while preparing for a first-ever lunar South Pole landing.

Today Indian news agency Firstpost reported: “Successfully crossing the final milestone ahead of landing, the landing module of the Indian Space Research Organization’s second mission to the Moon, Chandrayaan-2, has separated from the orbiter. With this, the Vikram lander and Pragyan rover are one step closer to making a soft-landing on 7 September. As of 1:15 p.m. [07:45 UTC] this afternoon, the Vikram lander has been put on an independent, circular path identical to the orbiter, passing over the lunar poles at a distance of roughly 100 km from the surface.”

Specifically, Vikram is in a nearly circular orbit 119-127 km from the lunar surface, according to ISRO. Two more lowering maneuvers Sept. 3 and 4 will be followed by low orbits for precisely mapping the landing area. The landing itself is apparently to be self-controlled. It is now scheduled for early morning Sept. 7 in India time (Sept. 6 afternoon EDT).

Some 60 Indian high school students have been selected, by an India-wide competitive quiz, to watch the landing with Prime Minister Narendra Modi at ISRO’s space center.

British Campaign against Chinese-Funded Coal Power in Africa

Sept. 2 (EIRNS)—The Carbon Brief, a British website covering “climate developments,” put out a report out which warns against “dirty coal” gaining ground in Africa thanks to Chinese funds. Whereas trans-Atlantic investors are pulling out of coal power projects, Chinese firms continue and are even expanding their role in building new, and modern, coal power plants. So far, most African coal power has been in South Africa, with 19 of the continent’s 32 coal-power plants. Some 24 new projects are envisaged in other African countries, 10 of which have already received the official go-ahead by their respective governments.

And, even a government such as Kenya, which puts a lot of emphasis on “renewables,” told Carbon Brief that more coal power will inevitably be needed, because of the projected growth of the Kenyan economy in the

coming years. Revealing how fake the “green future” image of European institutions is, Deutsche Bank, which has pulled out of investment from all fossil fuel energy projects in Germany, is co-funding a coal power project in South Africa.

Leo Hickman, director and editor at Carbon Brief, had earlier worked as the World Wildlife Fund’s U.K. chief adviser on climate change. Carbon Brief itself won an award this year from the Association of British Science Writers for an interactive feature on the impacts of climate change at 1.5°C, 2°C and beyond; last year, it boasts, it was “highly commended” for its investigative journalism—by the Royal Statistical Society.

STRATEGIC WAR DANGER

Lebanese-Israeli Border Heats Up

Sept. 2 (EIRNS)—Israel and Hezbollah traded strikes across the Blue Line, yesterday, after Hezbollah lobbed an anti-tank missile that hit an Israeli Wolf armored vehicle parked at military barracks near the Jewish settlement of Afifim. Israel responded with artillery fire across the Blue Line into southern Lebanon for more than two hours.

Israeli Prime Minister Benjamin Netanyahu said the Israeli Defense Forces (IDF) fired over 100 shells in the direction the Lebanese missile had come from. No Israeli servicemen were injured, but the Arabic AlHadath TV aired footage of Israeli helicopters taking injured soldiers to a hospital in Haifa, which the Israelis declared was staged, according to a report from TASS today.

The Hezbollah attack is said to be part of the retaliation promised in a speech on Aug. 31 by Hezbollah Secretary General Hassan Nasrallah to avenge recent Israeli drone strikes on Beirut and other regions. “Israel is taking aggressive measures against the resistance forces in Lebanon, Syria, and Iraq, and we cannot leave them unanswered,” he said.

Following the Blue Line exchange, Lebanese Prime Minister Saad Hariri held phone conversations with U.S. Secretary of State Michael

Pompeo and an adviser to French President Emmanuel Macron to inform them of dangerous developments on the Israeli-Lebanese border, Al-Watania news agency reported, citing the premier's press service.

“The head of the government urged Washington and Paris, as well as the international community, to intervene and prevent a military escalation,” the agency said, according to TASS.

OTHER

CDU and SPD Government Parties Weakened in State Elections in Germany

Sept. 2 (EIRNS)—The elections for state parliaments in the two eastern German states of Brandenburg and Saxony on Sept. 1 dealt substantial losses for the Christian Democrats (CDU) and Social Democrats (SPD)—evidence not so much of regional voter preferences, as of the widespread discontent with the national CDU-SPD government coalition.

Were there national elections now, the CDU and SPD would definitely not get enough votes to form a coalition. That is one of the messages from the two state elections on Sunday. The other interesting message is that the Green Party, which is the main benefactor from the green policy hype in the western states in Germany, where the Greens hold the second rank after the Christian Democracy, do not have that voter support in the East.

The third message is that the discontent is not appropriately reflected in the voting, because a real programmatic alternative is not presented by any of the other parties, including the Alternative for Germany party (AfD), the big winner of the elections, which mostly campaigned on the migration issue. AfD came in second yesterday, with substantial gains over the last elections, but since all other parties have categorically ruled out any coalition with the AfD, the formation of new state governments will be complicated, and will have to involve three parties in order to obtain a majority—not a sign of political stability. Minority governments have no tradition in Germany, so that this option can be ruled out.

Most likely coalitions are CDU-Greens-SPD in Saxony with a combined 48.4%; and in Brandenburg, SPD-CDU-Green or SPD-Green-Linke, with 52.6% and 47%, respectively. The final vote results on Sunday were, in Saxony: CDU 32.1% (-7.3), AfD 27.5% (+17.8), Linke 10.4% (-8.5), Greens 8.6% (+2.9), SPD 7.7% (-4.7) in Saxony; and in Brandenburg: SPD 26.2% (-5.7), AfD 23.5% (+11.3), CDU 15.6% (-7.4), Greens 10.8% (+4.6), Linke 10.7% (-7.9).