

The Israeli population is beginning to suffer economically as they have not done for decades, particularly the weakest sectors. The government had instituted an across-the-board cut of 10% in national insurance payments, Israel's social security system. Hardest hit will be the Israeli Arab community, which has the highest unemployment rate. The government has cut child allowances to any family whose members don't serve in the military. While this hits the ultra-Orthodox, who do everything to avoid military service, Israeli Arab citizens are forbidden from serving.

While claiming it won't increase taxes, the government has already increased the value added tax, one of the world's highest, from 17% to 18%. Educational cuts have forced schools to announce that the school day will be cut by one hour. Teachers have already struck over this issue. Other such cuts are already being felt in all the public sectors, particularly the health sector.

### Historic Water Crisis

In midst of all this, Israel faces the worst water crisis in its history. The Sea of Galilee, its primary source of water, is at record lows, as are the coastal and mountain aquifers. Israel is dependent on water resources in the West Bank as well, which it freely exploits, while greatly restricting Palestinian use. Although Israel has commissioned its first water desalination plants, construction has yet to start. Each plant costs NIS 400 million or more, with the government expecting private investors to take the initiative. In a war zone, progress is not likely to occur.

Ironically, solving the water crisis is key to reviving the economy and establishing peace in the region, given the reality that the majority of the existing water resources are located in a watershed that links Israel, the West Bank, Jordan, Syria, and Lebanon. Its exploitation and expansion can be most effectively accomplished through regional cooperation. This is the core of Lyndon LaRouche's well-known Oasis Plan for Middle East peace.

Yet Sharon's policy continues to be to expand the Jewish settlements in Palestine, using Israeli military might. He has refused to touch the tremendous subsidies and tax breaks the settlements receive. Money continues to be allocated to build bypass roads from West Bank settlements to Israel and connect new settlements to the electricity grid, among other types of infrastructure there. In fact, Sharon's war is to keep the settlements. *Ha'aretz* commentator Davhna Levit on June 17 identified their central role in the crisis: "The real costs of the settlements to our economy are prohibitive, although incalculable. . . . They have cost billions in lost opportunities and misdirected expenditures. . . . The most horrendous thought of all is not only that our leadership has no way out of this accelerating descent into Third World or worse status; it actively encourages it. Why else would it continue to speak of peace and provoke war, promise security and encourage violence, pay for a fence and continue to build outside of it?"

## Ranks of Wall Street's 'Misfortune 500' Grow

by Arthur Ticknor

Reading the business pages of any major U.S. newspaper has become like reading a police blotter, with allegations of rampant corporate crime and corruption, even surpassing that of the 1980s "Decade of Greed" typified by the savings-and-loan scandal. Among the new items on the docket since May, are criminal investigations of former executives at ImClone Systems and Tyco International, and a pre-criminal investigation of the Glaxo pharmaceuticals giant; while the conclusion of the trial of the Arthur Andersen accounting firm showed just how fed up Americans—as represented by the "12 angry people" of the jury—have become with the Wall Street and other financial superstars who fooled them on their now-disappearing 401(k) pension accounts.

The police-blotter firms are still just a growing minority of the much broader "Misfortune 500"—America's corporate leaders of the 1990s "New Economy boom" who are now the grim denizens of economic depression.

A new sign of their contagious misery, reported in June, is the use by hundreds of companies, of the sad tactic of "forced vacations" for their employees, in order to cut costs during this breakdown Summer. Some, such as Sun Microsystems, Hewlett-Packard, and VeriSign, while laying some employees off, are giving others paid vacations, and closing down to save operating costs. But there are those, like Manugistics of Rockville, Maryland, which is forcing all 1,200 of its employees to take *unpaid* vacations. And others are doing both, like Peregrine Systems, which is laying off half of its 3,000 workers and closing its offices on the others. Remember this trend when you read the next official U.S. unemployment statistics.

### Telecom Alley

It is becoming so hard to find a telecommunications firm which is not choking on its own debt and/or management corruption, that such rare exceptions now make "human interest" stories for the business pages. The telecom firms added to the Misfortune 500 in June were led by XO Communications, which on June 17 made the second-largest bankruptcy filing yet by a telecom. The Reston, Virginia-based phone and Web service provider owes about \$4.4 billion to bondholders (led by Carl Icahn), and another \$1 billion to banks. XO has not yet agreed on a restructuring plan with its bondholders and its largest investor, Theodore Forstmann, who has already written off \$1.5 billion invested in XO. Forstman asked on

June 6 to be released from a bailout deal which his buyout firm, Forstmann Little, and Mexican phone company Telmex signed to invest \$800 million to pay off creditors and keep the business operating, in exchange for 39% ownership each. XO shares have tumbled to 3¢, after reaching a high of \$66 in March 2000.

Then there's Qwest Communications, until recently a large and cash-rich Baby Bell phone company, which richly earned its misfortune with a "New Economy" acquisitions binge in the 1990s. CEO Joseph Nacchio was forced to resign, and co-chairman Philip Anschutz quit, as the phone company is saddled with \$26.4 billion in debt, and faces an accounting probe by the Securities and Exchange Commission (SEC). "When the two top guys quit, you can pretty much conclude that things are worse than believed," said a telecom analyst quoted by Bloomberg.

And on June 15, cable giant Adelphia Communications failed to make a \$50 million interest payment to its bondholders, another step on the way to filing bankruptcy. The nation's sixth-largest cable company, under investigation by the SEC and two Federal grand juries, is in default on more than \$7 billion in bank debt, and has asked for \$1.5 billion in financing for operations after it files for bankruptcy protection.

The collapse of the energy conglomerates is also continuing. Market capitalization of all of the erstwhile most powerful "pirates"—Enron, Mirant, Dynegy, Williams, El Paso Corp.—has fallen to a small fraction of its value of two years ago. Now AES Corp., based in Arlington, Virginia, which spent the last decade gobbling up energy corporations all over South America as they were privatized, has been trapped in the continental debt crisis it helped to create. AES co-founder and CEO Dennis W. Bakke was forced to quit on June 18, after a multi-hundred-million dollar loss in the first quarter of the year, and with the company's debt selling at far below investment grade. AES has been forced to write down the value of its South American assets, most severely in Brazil.

### The Criminal Docket

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. This allegedly occurred just before the Food and Drug Administration rejected, on Dec. 28, ImClone's application to market Erbitux, an experimental cancer drug—which sent the stock price plummeting. In addition to the nine criminal counts of conspiracy, securities fraud, and perjury filed by the Justice Department, the SEC filed a civil complaint seeking to recover \$10 million that Waksal's father and daughter made on the trades on Dec.



*The corporate collapse meets the last of the still-running real-estate boom: The building of the international telecom company Cable & Wireless, now bankrupt, is up for lease in Tysons Corner, Virginia.*

27 and 28.

Waksal allegedly learned from his brother on Dec. 26 that the Erbitux application would probably be rejected, and then so informed family members, who sold the stock on Dec. 27 and 28. Waksal attempted to sell his own shares, according to the FBI, but was blocked by brokers. Free on \$10 million bail, he 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 to the public the FDA's concerns.

Dennis Kozlowski, one day after being forced to resign as chairman and CEO of Tyco International, was indicted on June 4 for evading New York sales taxes on a set of paintings he bought with \$13.1 million of company money, and trying to write it off as a business expense. The large conglomerate, reportedly near a bankruptcy filing, has now gone to court against several of its own ex-officials and its former top lawyer, accusing them of colluding with Kozlowski to loot the firm's coffers of tens of millions of dollars in no-interest "loans" and phony fees.

Tyco has lost \$100 billion in market value since December, much of that attributed to the actions of its executives. The SEC 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.

And so continues the "U.S. economic recovery" among the corporate ranks of the Misfortune 500.