lish the list of *sacadólares,* or those who speculated against the peso, it is evident that the same private firms that complain most loudly against the shortage of dollars, and demand acceptance of the IMF conditions, control most of the $22 billion in bank accounts still held by Mexican citizens outside the country. If they brought these funds back into the country, they would triple their investment, since most of the dollars were bought at 26 pesos per dollar, and the current official rate of exchange is 70. However, the private sector is not disposed even to take advantage of the spectacular underdevaluation of the peso, which they could do with impunity. The business associations seem most concerned with the opportunity to clear more funds out of the country.

As President López Portillo implied in his Sept. 1 State of the Nation speech, the liquidity crisis is the result, at least in the very short term, of the private sector jumping ship. Less than a government attack on the private sector, the events of the past several weeks represent a private-sector strike against Mexico.

Polarization

The resulting level of polarization in the country's political life is unprecedented in the post-war period.

In Sonora, the northwestern state which produces the bulk of the country's protein foods, the private business sector has not only abandoned the governing PRI in favor of the neo-fascist Partido Acción Nacional (PAN); they have stopped talking to the PRI except through newspaper declarations.

The head of the local business association, PAN official Vidales Vidal, hailed the government's decision to establish exchange houses on the frontier Oct. 20 (to encourage Mexicans to return their flight capital) as "the beginning of the end of exchange controls." Vidales endorsed, in effect, the large black market in currency shipments across the border, and expressed hope that it would break the government's controls program. Meanwhile large commercial agricultural producers are offering bribes equal to 10 percent of their products' value in return for export licenses for products needed inside the country. Sonora's case, like that of other border states, is extreme; but the process is not much different elsewhere in the country.

The confrontation between Mexican officials and the International Monetary Fund the weekend of Oct. 22 may have represented a turning point for the Mexican leadership. The cost of an economic confrontation with the United States would be terrible; but if the United States supports its bankers at the expense of its own more basic economic interests, Mexico will have to deal with the confrontation forced upon it. IMF officials who believe that Mexico's leaders will pawn the country's future prospects for development in return for an indistinct promise to relieve the short-term pressure may have miscalculated badly.

Mexico is preparing for economic war.

The Mont Pelerin Society determination to crush

In a rare break from its secretive policies, the Mont Pelerin Society made its latest conference in Berlin this September a forum to announce publicly just what its members intend to force upon the world economy. The Society, founded in 1947 out of the Vienna School, is committed to forcing Malthusian economic policies on national economies under the banner of "free-market" policies, i.e., destroying the centralized generation of credit for industrial and infrastructure development that was Alexander Hamilton's American System.

The most recent "national experiment" of the Mont Pelerin Society, the fascist economics imposed in Chile on the advice of the Chicago School's Milton Friedman, vice president of the Mont Pelerin Society, ended recently with Chile's industry and labor destroyed, and the country forced to ask for a moratorium on its debt principal. Chilean dictator Pinochet has kicked his Chicago School advisers out of the country.

Although most of the presentations at the Sept. 5-10 Berlin conference were delivered in abstract jargon, their meanings would be clear to anyone with a grasp of the fundamental difference between American System and fascist economics. Lest any *EIR* reader think this publication exaggerates its characterization of Mont Pelerin policy, we present here excerpts from the speech of Prof. Herbert Giersch, president of the Institut für Weltwirtschaft of Kiel University. Giersch's speech was a task-oriented statement of what the Society wants.

We spare you the experience of the presentation by Mont Pelerin *éminence grise* Friedrich von Hayek. His "philosophical" statement bordered on outright psychosis. Giersch's speech is sufficiently damning.

Giersch spoke on "Socialist Elements as Limits to Economic Growth" during a session on "Socialist Thought as a Challenge for Western Societies." His definition of "socialist" was anything remotely related to economic leadership by a national government; Giersch made it clear that, beyond the destruction of the welfare state, the Mont Pelerin Society is looking to destroy nations themselves.

spells out its industrial growth

In his general observations, Giersch established his conception of what he termed "natural growth," the "average growth rate which would come about under laissez-faire conditions in a stable monetary framework. Such growth would reflect the rate which individuals and families desired, given natural constraints. An acceleration beyond the natural rate can be achieved by propaganda, coercion, or inflationary monetary policies, albeit only for a limited period."

As all three methods of violating the "natural" growth rate have been used in post-war economic policies, Giersch expounded, "acceleration will be followed by deceleration, or growth slower than the natural rate because of lagged negative effects of propaganda, coercion, and inflation. The deceleration may be accentuated, entailing stagnation or persistent absolute decline, if the preceding ["forced"] acceleration enabled or induced the expansion of bureaucratic government, the development of a transfer system [i.e., compensating labor] depressing the natural motivation level, or the implementation of wasteful projects and policies that cannot be terminated or reversed without heavy cost. . . . Futile collectivist actions [anything remotely dirigistic or interfering with the fixed order of the *laissez-faire, laissez-mourir* world of the Mont Pelerin Society] will have a tragic outcome."

Professor Giersch then came to the point, in attacking all accelerated economic growth as unsustainable and inevitably fated to collapse. To prove this, he proceeded to lump together all sources of economic expansion, classing such scientific "driver" forces for industrial and technological development as the U.S. space programs, with Vietnam and the "Great Society" of the Johnson administration, which in actuality represented the first wave of the zero-growth "post-industrial" society.

"While economic growth in continental Europe's post-war reconstruction period had been fairly natural in the sense that it was neither much encouraged by macro-economic policies nor severely braked by institutional rigidities, the West in the early 1960s embarked upon a demand-side policy of accelerated economic growth under the leadership of the United States. Whether the driving force came from the Sputnik challenge (landing a man on the moon), the post-Keynesian full-employment gospel (fine tuning), a kind of social imperialism (the Great Society), or a war effort (Vietnam and subsequent moral equivalents to war), the economic success depended upon the existence of monetary illusion, including exchange-rate illusion.

"The overvaluation of the dollar, which favored Europe's industrial integration, came to an end with an excess of dollars. The excess U.S. demand and induced general demand, which Europe fueled by importing *Gastarbeiter* [foreign labor] generated too many dollars. The Bretton Woods System collapsed."

But it was not these monetary policies which led to the current crisis, Giersch asserted. He laid out the ultimate restriction on expanded economic growth—the utterly bankrupt policies of Parson Malthus and Adam Smith:

"The more spectacular limits to accelerated growth emerged in the form of a temporary shortage of land, or, more specifically, of natural resources, including energy and the environment. Even if both labor and natural resources had been in unlimited supply, the period of accelerated growth would have come to an end. The major bottleneck would have been the supply of capital. Capital formation is bound to fall behind if the additional growth is due to collective demand and therefore serves public consumption rather than private investment. Private savings are impaired when the government takes more care of private health and *old-age security*. . . ." [emphasis added].

Attack on wages

In short, the capital shortage arose and was aggravated by excessive increases in real wages "when they should have fallen relative to the price of energy and natural resources and relative to capital. . . .

"Populist policies conducive to the 'euthanasia of the rentier' [Giersch finds euthanasia for old people preferable—L.M.] led to an overvaluation of present labor at the expense of past labor and thus to an undervaluation of capital and of the future. . . ."

What now, little man? Paragraph 16 of Giersch's précis for euthanasia makes it clear, and is quoted in full below:

"The collectivist acceleration of growth of the 1960s—supported by moral suasion, guideposts, and price and wage controls (under Nixon, when he also declared himself to be a Keynesian)—made growth a sort of public good. Such growth, together with inflation and a graduated income-tax system, automatically widened the scope for collective action. . . . Despite international differences, there were common features. They include:

- "Public investments with doubtful productivity (or excessively long-term returns) such as space exploration, nuclear energy promotion, and pompous public buildings (profane cathedrals);

• "Excess expenditures for so-called 'merit goods' such as public education, public health, and hospital buildings;

• "Subsidies to private capital investment leading to excess capital intensity (as under regional policy to compensate for excessive real wages in backward peripheral areas);

• "Subsidies to ailing private firms in the name of providing job security, which again means subsidizing capital in order to compensate for excessive wages;

• "Capital assistance to regional governments with matching conditions, inducing them to embark upon capital-intensive projects and maintain inefficient, interventionist systems;

Says the Mont Pelerin society's Herbert Giersch, growth is inherently limited. There is somehow a finite amount of capital in the world, and the living standards of wage-earners and pensioners are a regrettable deduction from that capital. A second drain on capital, he asserts, is infrastructural and scientific projects, including nuclear-energy development. Mont Pelerin's goal is to slash real wages and eliminate useless eaters, under the slogan of laissez-faire, which in all but vocabulary is the same policy as Adolf Hitler's.

• "Soft loans to socialist countries, thus augmenting their resources and enabling them to start (often without completing them) projects involving excessively long-term means of production (heavy industries) or to accelerate military spending or postpone adjustment to a changed external environment;

• "Subsidies to the social security system which induce people to underestimate the private cost of social security and to ask for more of it."

Giersch proceeds to make an outrageous reference to Council of Economic Advisers Chairman Martin Feldstein's 1974 study on the "cost" of public social security, which was based on fraudulent statistics.

• "Social welfare payments and unemployment benefits which, apart from helping those who really cannot help themselves, are likely to impair individual foresight and the propensity to save, and which certainly reduce individual efforts to search for jobs and to adjust to structural change in the labor markets."

Giersch calls for letting all "useless eaters" fend for themselves: "Socialist critics ignore the spontaneous supply of insurance and the existence of the family as the framework for implicit inter-generational contracts to care for the future . . . and the time preference of individuals living in an inter-generational system of family ties where the time horizon ends shortly before the concern for those who will probably never be born or will never be known to anybody now on earth.

"Looking back over the last two decades and taking a broader view, we observe: acceleration has led to deceleration; the labor shortage to mass unemployment; the exploration of the universe and the exploitation of the environment to a pantheistic adoration of the earth; the pursuit of quantitative growth to an emphasis on idyllic qualitative growth; the fascination with grand designs and big public investment projects to a preference for what is small and beautiful; the concentrated funding of huge research projects to technological pessimism, the explosion of public education to mediocracy; the quest for equality of opportunities to an excess supply of intellectuals hating the material advance that produced them; the overexpansion of the welfare state to a decline of work ethics and of self-reliance, private charity, and the family. Intergovernmental development aid has led to an increase in the number of countries depending on it; the abundance of capital after Europe's post-war reconstruction to a capital shortage and what is being called 'Eurogloom'; the cheap-money policy to exotic interest levels; the exploitation of money illusion to negative money illusion; the exploitation of tax illusion to taxpayers' revolts; the excess application of the Keynesian medicine to a superclassical condition of the body economic."

The worldwide economic situation is comparable to that of Germany in the 1920s, Giersch stated—and then proceeded to lay out the solution that Hjalmar Schacht, finance minister for Adolf Hitler's Nazi government, put into effect in Germany in the 1930s: "Natural growth may be resumed when factor prices have been brought back to balance [as if laissez-faire conditions prevailed]. This means a *fall of real wages* until classical unemployment has been fully absorbed, fairly high rates of interest . . . until the capital shortage has been overcome, and higher profits . . . to match the high level of uncertainty which prevails in periods of subnatural growth and increasing state interventionism [emphasis added]."

This is fascist economics—the refinancing of massive debt through the cannibalization of the productive economy. The only unique thing about Professor Giersch's presentation of the subject was that the Mont Pelerin Society could be so straightforward.