TABLE 3
Peru: production of the principal gold mines
(tons)

	1997	1998
Yanacocha (Newmont, Canada)	32.8	41.3
Misquichica (Barrick Gold, Canada)	—	1.8
BHP Tintaya (BHP, Great Britain)	1.0	1.2
Others	13.8	20.6
Total	**47.6**	**64.9**

Source: Ministry of Energy and Mines of Peru.

than Yanacocha, owned by the Canadian firm Barrick Gold, which is associated with George Bush—gold production in Peru could grow by 25% by the end of the year. Costs of production in the new Pirina mine are not expected to be more than $60 per troy ounce (see **Table 3**).

Between 1992 and 1997, total mineral exports surpassed $13 billion, but what the multinationals paid for rights of exploitation in this period did not even reach $200 million (see **Table 4**). This is the cold balance of nearly ten years of the export model promoted so heavily by Felipe Ortíz de Zevalos, disciple of Massachusetts Institute of Technology economist Rudiger Dornbusch and defender of Harvard "whiz kid" Jeffrey Sachs.

This return of the economy to a 19th-century mining enclave, has not been good for the country. The Fujimori government must end this situation, and begin to implement a serious tax regimen for the mining multis. This would not only easily resolve the country's fiscal problem, but would provide sufficient capital to initiate construction of great infrastructure works capable of reducing the country's unemployment and launching the real development of the country. This is the only way to go about winning reelection.

TABLE 4
Peru: mining exports and royalties
(millions $)

	Royalty and mining rights payments	Exports
1992–94	59.8	5,263.2
1995	48.5	2,615.7
1996	53.9	2,654.4
1997	37.5	2,730.8
Total	**199.7**	**13,264.1**

Source: Ministry of Mines and Energy of Peru.

Robert Mundell wins Nobel Prize for supply-side quackery

by Richard Freeman

On Oct. 13, the Bank of Sweden awarded the Nobel Prize in Economics to Robert A. Mundell. The Columbia University economics professor is the intellectual author of the magician's brew called supply-side economics, which policy destroyed the U.S. physical economy and helped build up the world's biggest speculative bubble. It also created Federal budget deficits larger than any in the history of the United States.

Thus, in making its 1999 selection, the Bank of Sweden and the Royal Swedish Academy (the Bank selects the recipient, and the Academy presents the award on behalf of the Bank) have shown, if nothing else, a remarkable degree of consistency in maintaining the criteria by which they cull Nobel Prize winners in economics from the ordinary dullards in the profession.

In an Oct. 12, 1994 statement, the world's foremost economist, Lyndon LaRouche, commented on the Nobel committee's criteria: "The notorious perversity of the Swedish Royal Academy's views on economics are attested by the fact, that excepting the case of Maurice Allais [1988], no economist has been awarded the Nobel Prize for economics who has not either personally caused a major economic catastrophe for at least one nation, or concocted a theory in defense of such a ruinous delusion."

Some readers may dismiss this statement as an "exaggeration," but consider just two of the recent winners:

1997: Robert Merton and Myron Scholes. Merton, Scholes, and Fischer Black developed the Black-Scholes model, an unintelligible, linearized mathematical formula for making money on the pricing of derivatives and stock options. The Long Term Capital Management hedge fund utilized this model in the highly volatile world of derivatives. In September 1998, on a derivatives position of $1.25 trillion, LTCM failed, and nearly brought down the world financial system.

1993: Robert Fogel and Douglas North. Fogel's 1974 book, *Time on the Cross,* defended black chattel slavery. Using statistics, Fogel attempted to show that the ante-bellum South's use of slave-labor in agriculture, produced a higher output per dollar invested, than the agriculture of the free, technology-proud American farmer.

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Mundell's crackpot theory has shown itself, by this standard, worthy of Nobel consideration.

In the 1980s, the London-Wall Street financier oligarchy used Mundell and his gaggle of supporters, such as *Wall Street Journal* editor Robert L. Bartley, to take over the economic policymaking of the Reagan administration. It applied supply-side economics, using high interest rates, and the Kemp-Roth Tax Act of 1981, which Mundell and his gang wrote. This fulfilled Mundell's supply-side mantra, of tight money, through high interest rates, conjoined to tax cuts. "Supply-side" economics is nothing other the oligarchy's policy for a post-industrial society: razing to the ground manufacturing, agriculture, and infrastructure, while fostering the "Information Age" service economy and speculation.

Mundell was awarded the Nobel Prize, according to the Bank of Sweden's press release, "for his analysis of monetary and fiscal policy under different exchange-rate regimes and his analysis of optimum currency areas." As part of his work on "optimum currency areas," Mundell also helped bring into existence the euro, the European single currency. But, it is supply-side economics that is the heart of Mundell's work, and all his activity internationally stems from this outlook.

It is likely that the oligarchy has further tasks for Mundell, which is signalled by their granting him the Nobel Prize. His policy will accelerate the disintegration of the world financial system.

We look at Mundell's emergence under the protective wing of the oligarchy's Mont Pelerin Society; the process by which the "supply-side" economics team was assembled; how the policy was applied in the United States, and the resulting devastation; and finally, how Mundell's ideas fit with the plan to use the collapse of the global financial system to impose a "classical" British gold standard.

Nobel Prize winner for Economics Robert Mundell, another advocate of a return to the oligarchy's 19th-century British gold standard.

The cultivation of an oligarchical mind

Robert Mundell was born in Canada in 1932. He did his graduate work at the London School of Economics in the 1950s, where, as Mundell told a reporter in 1981, his ideas were shaped by LSE chairman Prof. Lionel Robbins. Robbins was for decades a top administrator-ideologue for the British financial establishment, for which service he was ennobled a Lord. Robbins and his ideological colleague, Austrian School fanatic Friedrich von Hayek, were leading lights of the Mont Pelerin Society, which the British and Hapsburg oligarchy founded in Switzerland in April 1947. Robbins filled Mundell's mind with the Mont Pelerin Society's doctrine, which determines his thinking to this day.

The Mont Pelerin Society doctrine is characterized by the oligarchical-monetarist dogma of radical budget-cutting, counting money as the only measure of value, and eliminating the nation-state from any role in economic development. It views man as fundamentally an animal, guided by the primal instincts of lust, fear, pain, and so forth. It promotes free trade, and advocates usury.

The Mont Pelerin Society view is in opposition to a republican outlook, the American System of economics, which proceeds from the General Welfare clause of the U.S. Constitution, that each man is in the image of the Creator, and that the nation-state has the responsibility to develop the cognitive capacity of each and every citizen. To this purpose, it pursues a protectionist policy, and a dirigistic credit policy of directing cheap and abundant credit to technology-proud, capital-intensive, energy-intensive manufacturing, agriculture, and infrastructure. It also develops each citizen with a Classical education.

In 1961, at the age of 28, Mundell was made chief international economist of the International Monetary Fund, a post he held until 1963. In 1961, he wrote "A Theory of Optimum Currency Areas," an article for the *American Economic Review,* which we discuss below.

During the 1960s, Mundell was steered to the Siena Group, an oligarchical organizing committee for which he played a leading role for decades. The anti-nation-state Siena

Group's core institution is the Monte dei Paschi Bank of Siena, Italy, and the Monte dei Paschi charitable foundation, which up until 1997, owned 70% of the shares of the bank. The bank, founded in 1472, is the world's oldest continuously functioning bank. It is a living symbol of the power today of the old Venetian-Genoese financial oligarchy. Every summer during the 1970s, the Siena Group held conferences whose participants included Alexandre Lamfalussy, chief economist for the Basel-based Bank for International Settlements, and several other top members of the BIS; Italian central banker Rinaldo Ossola; Swiss Banker Nicola Krul; Chase Manhattan Bank chief economist Eugene Birnbaum; and Mundell. The Siena Group created the Securities Group, which trained many of the supply-siders who took over the Reagan administration, including economist Art Laffer. Under the auspices of the Siena Group, Mundell recommended a return to the contractionary and destructive British 19th-century "classical" gold standard.

Mundell took to heart the oligarchical worldview of the Siena Group. In the late 1960s, he bought and renovated a 16th-century Italian castle originally built for Pandolfo Petrucci, the "Strong Man of Siena." For part of each year, Mundell lives there, in baronial style.

In 1967, Mundell accepted a professorship at the University of Chicago to work with Milton Friedman. Mundell had disagreements with Friedman, but all within the monetarist domain. In 1974, Mundell moved to Columbia University in New York City, as a professor of economics.

Supply-side economics

The oligarchy's supply-side economics is a means to bring about a post-industrial society: collapsing manufacturing, agriculture, and infrastructure, and building up services, particularly financial services, and speculation. It offered a "conservative" variant of the post-industrial society, and an identical "liberal" variant.

Although the Bank of Sweden avoids mention of Mundell's development of supply-side economics in its communiqué awarding him the Nobel Prize, this is the primary theory for which he is known, and promoted, today. Mundell's international theory on capital flows and exchange rates is a key tenet of his supply-side economics. Mundell relates that in 1971, he attended a meeting of "distinguished economists," where he suggested that to support the U.S. dollar, which was then falling, and to stimulate the economy, which was then stagnating, the United States must follow a tight-money policy (by raising interest rates, which would support the dollar) and an expansionary budget policy (by cutting taxes, which supposedly would stimulate the economy).

To this "revolutionary discovery," Mundell added one additional element to make his "theory" saleable: To his tax cuts, which overwhelmingly benefitted the wealthy, he added the Mundell-Laffer Curve, a product of the voodoo economics that he developed with economist Art Laffer. The curve illustrated the dictum that when taxes are very high, they can discourage production. This is true, but the supply-side theory then purported to show that cutting taxes, especially those paid by the wealthy, such as those on capital gains and estate taxes, would cause the economy to grow. Further, that even though sharp tax cuts would cause an immediate reduction in revenues for public infrastructure, education, medical services, and so on, that did not matter: Tax cuts would liberate the economy, automatically causing it to grow, and eventually produce a budget surplus.

The supply-siders, true to their monetarist core, defined economic growth as growth of Gross Domestic Product, but refused to distinguish between productive activity and cancerous speculation. In 1981, monetarist William Fellner of the American Enterprise Institute told *EIR,* "We cannot imagine that we can determine what is productive and what is not. Who are you or I to say that steel mills are more productive than high-rises or gambling casinos? Whichever is more profitable is more productive."

Presidential candidate Ronald Reagan embraced supply-side economics during the 1980 campaign. He promised to close the Federal budget deficit, and produce a budget surplus within three years.

There was not a chance that that would happen. Predictably, the Mont Pelerin-Mundell supply-side economics blew the physical economy to pieces, while setting the speculative markets off at a gallop.

Supply-side put to the test

Not many economists get to see their "theories" tested in action. But Mundell did—because the oligarchy knew his would be destructive. The key was getting Reagan to adopt the policy, which was accomplished through Mundell's gaggle of protégés: *Wall Street Journal* editor Bartley and editorial page writer Jude Wanniski, University of Southern California economist Art Laffer, Rep. Jack Kemp (R-N.Y.), and University of Chicago economists Paul Craig Roberts and Norman Ture.

The pivotal person was Bartley. Bartley had joined the *Wall Street Journal*—the voice of the City of London and Wall Street, and America's second-largest daily mass circulation newspaper, which is treated as the gospel in the business community—in 1961, and he was put on a fast track; he was made editorial page editor in 1972 and editor in 1979.

In October 1973, Bartley published an essay entitled "A Pathology of Perception." In defining where America was heading, he cited Daniel Bell's 1973 book, *The Coming of the Post-Industrial Society:* "Mr. Bell sketches the shape of the society we are becoming. The economy will be increasingly pre-occupied with services rather than [producing] goods." The post-industrial society would be the fundamental touchstone for Bartley. In 1972, Bartley invited his

buddy Wanniski to become an editorial writer for the *Journal*.

At the same time, the neo-conservative movement began propagandizing for supply-side economics. Neo-con Irving Kristol, a friend of Bartley's, paid Wanniski $2,500 to write a 10,000-word article, entitled "The Mundell-Laffer Hypothesis: a New View of the World Economy," for the November 1974 issue of Kristol's *Public Interest Quarterly*. In 1976, on Bartley's instructions, Wanniski met with Kemp to sell him on the Mundell model. In 1980, Kemp, in turn, sold it to Presidential candidate Ronald Reagan. Kemp introduced the tax-cut legislation, written by Paul Craig Roberts, another member of the Mundell gaggle who was on his staff.

Meanwhile, another member of this circle, Norman Ture, cranked out hokey computer simulation models to prove that the supply-side tax-cut bill would cause the GNP to grow by $151 billion and generate a budget surplus. Ture was rewarded for this fakery by being placed in charge of U.S. tax policy, as Undersecretary of the Treasury for Tax Policy in the Reagan administration.

With all the personnel in place, the *Wall Street Journal* kept up a steady stream of editorials and articles to tie Reagan to, and prepare the nation for, supply-side economics.

A two-step process was unleashed, which fulfilled the requirements of Mundell's supply-side policy: tight credit, through high interest rates, and tax cuts.

Volcker's 'controlled disintegration'

First, in October 1979, Federal Reserve Board Chairman Paul Volcker imposed a policy of "controlled disintegration," which had been developed by the oligarchy's top policy-formulating establishment, the New York Council on Foreign Relations. The CFR had undertaken a massive study, entitled the "1980s Project," for which controlled disintegration was a centerpiece. The policy held that external shocks would be administered to the economy—oil price hikes, credit cut-offs, interest-rate spikes—which would throw the economy into negative growth, and then disintegration, which the oligarchy hoped would be a controllable process, hence its policy of "controlled disintegration." This was a plan for deindustrialization and population reduction. During the week of Oct. 6-12, 1979, Volcker sent interest rates into the stratosphere; by December 1980, U.S. banks' prime lending rate had been forced up to 21.5%. In the ensuing physical economic collapse, the only place where money borrowed at 21.5% could be invested and turn a profit, was in speculation.

In October 1981, the second of Mundell's preconditions, a sweeping tax-cut package, came to pass: The Kemp-Roth Economic Recovery Tax Act (ERTA), sponsored by Kemp and Sen. William Roth (R-Del.), was signed into law. The ERTA, written by Mundell's disciples and embodying his concepts, carried out the following:

- reduced the top tax rate on capital gains from 28% to 20% (in 1979, the Steiger Act had reduced the top tax rate on capital gains from 49% to 28%);
- reduced the maximum tax rate on investment, or "unearned" income—income for interest and dividends—from what was then a rate of 70%, to 50%;
- increased gradually, from $175,625 to $600,000 (by 1987), the total amount of reported estate and gift earnings that would be exempt from estate and gift taxes. *By 1987, less than 1% of all estates would be taxed;*
- created a bonanza for "investment partnerships," primarily in real estate. "Passive investment partnerships" were set up, whereby one could invest $1, and get back $2-4 in tax losses to apply against one's taxes;
- reduced taxes for leasing;
- reduced overall income taxes by 23% over three years.

With the exception of the last tax cut, all tax cuts benefitted primarily the rich speculators, and even the last cut helped the wealthy the most. The tax system was deregulated, so that speculative arrangements came out on top. As planned, the cut in the top tax rate on capital gains goosed up the stock market.

In 1982, the U.S. banking system was deregulated. Though Mundell's gang did not write this act, it conformed to his anti-regulation outlook. Finally, monetarist David Stockman, head of the Office of Management and Budget, was slashing Federal expenditures for infrastructure and other programs essential to physical productive output.

Mundell discredited

The implementation of the supply-side program, and of related oligarchical measures, had a shattering effect.

Perhaps, the most noteworthy outcome, was that the claims of the Mundell supply-side theory were utterly discredited. Under the so-called "Mundell-Laffer" curve, the level of tax revenues was supposed to initially dip, but then, as the economy allegedly soaked in the beneficial benefits of the tax cuts, tax revenues would rise to unprecedented levels, and the budget deficit would turn into a surplus.

What actually happened is shown in **Table 1.** During the Reagan and Bush Presidencies, when supply-side policy was in effect, the U.S. Federal government ran annual budget deficits that went as high as $405.6 billion in fiscal year 1992. When Reagan took office in 1981, the total U.S. Federal debt outstanding was $0.994 trillion. That is, during the 192 years between the republic's founding in 1789, and 1981, the total accumulated U.S. Federal debt outstanding had reached $0.994 trillion. By 1993, the year Bush left office, the total U.S. Federal debt outstanding had reached $4.351 trillion. Thus, in the 12 years that Reagan and Bush were Presidents (Bush was not exactly a supply-sider, but the policy effect carried over from the previous administration), the total U.S. debt outstanding had increased by $3.357 trillion.

The Volcker tight-money-induced depression, conjoined to the tax cuts—the Mundell formula—had blown out Ameri-

TABLE 1
U.S. Federal budget deficits
(billions $)

Fiscal year	U.S. gross annual budget deficit
1982	$142.5
1983	234.4
1984	193.0
1985	252.8
1986	303.1
1987	225.5
1988	255.2
1989	266.7
1990	338.6
1991	389.9
1992	405.6
1993	349.3
Total	**$3,356.6**

Source: Office of Management and Budget, "Budget of the United States Government, Fiscal Year 2000, Historical Tables."

ca's tax revenue base.

Simultaneously, the combined oligarchical policies sent the U.S. physical economy into a downturn, and built up speculation, which have continued to the present day (see "How Volcker and Greenspan Created the Financial Bubble," *EIR,* Oct. 29, 1999). One very striking, deliberate result of the Mundell measures, is that the stock market bubble began to take off. In 1982, the Dow Jones average of 30 industrial stocks stood at 884, and the capitalization of all stocks of the U.S. stock market was $1.59 trillion. By the end of the first quarter of 1999, the Dow Jones industrial average rose to 9,786, and the capitalization of all stocks had shot up to $15.97 trillion. Federal Reserve Board Chairman Alan Greenspan had a lot to do with the rise, but the stock market "bull market" in the United States is 17 years long, and its official starting point is dated to 1982, the year that the Kemp-Roth Act went into effect.

Into this deregulated, highly speculative environment was brought the organized crime flying squad of Drexel Burnham Lambert, Michael Milken, and a cast of other criminals such as Ivan Boesky. They used leverage and junk bonds to carry out leveraged buy-outs and to asset-strip American corporations' plant and equipment. The Mundell supply-side gang at the *Wall Street Journal* cheered this on, pontificating that Milken and the LBOs represented the "creative chaos" unleashed by supply-side economics.

In 1988, Milken was indicted by Federal authorities for criminal activity, and in late 1990 he was convicted and sentenced to ten years in prison—a very light sentence in view of what he did. By 1990, the 1980s was being called the decade of greed. The *Wall Street Journal* considered this an indictment of itself, and lashed out. In a Nov. 23, 1990 editorial, "Symbol of the '90s," the *Journal* wrote: "Michael Milken has often been depicted as the symbol of the 1980s, the Master of the Universe presiding (with Ronald Reagan) over the decade of greed. . . . We fear he is becoming the symbol of the 1990s, the decade of vengeful destruction." That is, sentencing Milken was vengeful. The supply-siders arrogantly said that Milken should have received no jail sentence.

The 19th-century British gold standard

Mundell's international views, totally coherent with supply-side economics, are known by two bench-marks.

First, since his earliest days of association with the oligarchy's Siena Group, Mundell has favored a 19th-century British "classical" gold standard. In a March 1, 1981 speech at a conference of the Siena Group's offshoot, the Securities Group, Mundell stated, "The gold standard has never been at fault. When it was suspended in 1797 that was not the fault of the standard, that was Napoleon's fault. . . . When there was inflation in the 19th century, that was not the fault of the standard, that was the fault of the War between the States" (note Mundell's choice of the Confederacy's term to falsely depict the Civil War as the War between the States).

The "classical" gold standard that Mundell wants is the opposite of LaRouche's New Bretton Woods gold-reserve monetary system. The "classical" gold standard puts an iron-clad limit on credit creation, removing the function of governments in the creation of credit. Rather, its implementation would produce, as did the Specie Resumption Act of 1875-79 in the United States, which produced a catastrophe for industry and agriculture, a deflationary contraction of credit.

Second, Mundell is credited as one of the fathers of the euro currency and the Maastricht Treaty. Mundell began working on the euro project as a paid consultant to the European Monetary Authority in 1969. While parentage of the euro may be attributed to a few fathers, Mundell's program for the euro and the monetary union of Europe, is clear. In his 1961 article, "A Theory of Optimum Currency Areas," cited by the Nobel committee, Mundell states that to make such a system work, there must be a high "labor mobility." This concept has a very definite meaning: that wage levels of Europe are too unionized and structured, i.e., too high. It must be made possible to recycle workers, moving them, as did the Nazis, to lower and lower wage levels. This means that workers would become "more mobile," including being shipped across borders to force down wages and living standards.

Mundell has expanded the scope of his plan. In a July-August 1990 article in the Italian journal *Revista di Politica Economica,* he stated that there exists the "opportunity to create a world central bank" to apply the 19th-century gold standard and supply-side austerity globally.