But the penultimate word was given to Mundell, the spiritual leader of Siena. The Columbia University economist now lets his gray hair reach his shoulders, and wears incongruous sporty suits and tinted glasses. From a top place in the economics profession, he has personally deteriorated to the point that he no longer takes organizational responsibility for such conferences. But Mundell, with a rasping voice and awkward gestures, remained the authentic voice of Siena economics.

"The prime focus of the gold standard is predictability," Mundell began. "One-fortieth to one-fiftieth of all wealth has always been held in gold, and the proportion has not changed. 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.... We changed our monetary standard after 1968, and had inflation. The standard wasn't obeyed during the Vietnam War, when we printed money to finance the war. The standard led to crisis and collapse in 1971. But the fault doesn't lie with the standard. It lies with the operators and interruptors of the standard."

Reagan's policy would merely lead to "deeper recession" due to Stockman's "strict fiscal policy," the inventor of supply-side economics warned. He assailed Paul Volcker's "crude Friedman-type monetarism" as "absurd," arguing for the gold standard method Birnbaum had outlined earlier. And he concluded with visions of empire: "The United States still can be the leader of the West, if it pegs the dollar to gold. The Italians would be better off pegged to the dollar than to the mark [in the European Monetary System], the mark is in a terrible position. The whole Common Market would be much better off if they pegged to the dollar, than to the absurd system they are trying to work now, it isn't working," Mundell said, as Eugene Birnbaum tried to quiet him. The guru's speech had extended ten minutes over the alloted time limit.

The gold standard Mundell wants is the opposite of the European Monetary System approach, which uses gold as a backing for a currency stabilization fund. Rather, like the Specie Resumption Act, it imposes an ironclad limit on credit creation, removing the function of governments in the creation of credit—and reversing, if implemented, the entire evolution of the modern republic since the end of the 18th century. This is the plan, and the order-of-battle, of the old European family and financial power which never forgave the American Revolution or the introduction of Hamiltonian central banking. By springing this trap on President Reagan, it hopes to accomplish one of the great *revanchiste* exercises of all time.

Parson Thomas Malthus.

Why supply-side economics is an antigrowth swindle

by Kathy Burdman

Office of Management and Budget Director David Stockman and Rep. Jack Kemp (R-N.Y.) told President Ronald Reagan last December that unless he applied their new brand of "supply-side economics," the administration would face an "economic Dunkirk."

Now, two weeks after the President's major economic package has been presented, with Stockman firmly in the saddle of economic policy, the nation's basic budget for scientific research, nuclear energy, and vital water projects is being slashed dramatically. Federal Reserve Chairman Paul Volcker still has interest rates at 19 percent, with Stockman's blessing, and the economy is heading deep into recession.

We have Dunkirk. Is this some mistake, some miscalculation by the supply-siders, who so strongly preach the economics of growth?

Not in the least. According to a top source at the Volcker Federal Reserve, supply-side economics is "not a growth policy." "Supply-side economics is just a new public-relations argument to help the administration sell the same program Jimmy Carter failed to sell to the American people," said the New York Fed official.

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"Carter knew the major problem was to cut inflation, and rationalize industry, but he couldn't sell it. Look at the supply-side policy recommendations now, they aren't all that different. What's the difference between Jack Kemp's tax cuts and Carter's tax reform? Not much. Look at Stockman's budget cuts. Carter tried to cut the same water projects. And the tight-money policy is identical. The difference on monetary policy is practically zero."

How did this happen? Stockman, Kemp and the other supply-side boosters claim their bold new tax cuts and related measures would stimulate an economic boom by encouraging individuals and corporations to work harder for more post-tax income and thus "supply" more wealth to the economy.

The February issue of the *Morgan Guaranty Survey* has a very sober view of what is actually afoot—a shift from a capital-intensive to a labor-intensive "postindustrial society." "The new supply-side philosophy is different in its emphasis," Morgan writes. "Instead of focusing on the leverage between the size of the nation's capital stock and the nation's output of goods and services, the new supply-side thesis stresses the role of the work effort as a key conditioner of the volume of total production."

That is, while high interest rates and reduced government infrastructural development make capital investment in industry nearly unaffordable, individuals will work more hours at less productive jobs for marginal increases in take-home pay. The society will shift to a lower level of technology, and lower per capita energy consumption.

In fact, as we shall show, the real authors of the supply-side doctrine are the leading agencies committed to world industrial and population reduction, the same agencies who backed the Carter administration. They are the Basle-based Bank for International Settlements, the International Monetary Fund, the University of Chicago Department of Economics, and its leading light Milton Friedman.

The ancient pedigree

"There's nothing new at all about supply-side economics," the New York Fed official said. "Supply-side economics was invented by the central bankers at the Bank for International Settlements many years ago."

Supply-side economics, the central banker continued, is not just a pleasantly hefty tax-cut program. From the beginning, he said, a severe tight-money policy such as Volcker's has been the second pillar of the theory, without which tax cuts are regarded as "inflationary." Harsh budget cuts are also intrinsic to the package, he said. "The core of supply-side is that fighting inflation comes first."

From the beginning, the Fed official said, the BIS plan was to shut down major components of basic heavy industry in the West, particularly in the United States, in favor of "postindustrial" activities. "The idea is to rationalize older, more inefficient industries," he said, "and increase investment in new high-technology" postindustrial sectors.

Combining tight money with indiscriminate tax cuts means that newer "information age industries"—computers, microchips, finance—with high cash flow get the breaks. Heavy industry (auto, steel, construction, chemicals), which is already deep in deficit, has no profits and thus no tax incentive. With high-interest rates, it will be deprived of badly needed capital for investment, and will not survive.

The Bank for International Settlements is an old hand at policies prejudiced against heavy industry. Formally the central bank for Western central banks, the BIS and its Basle, Switzerland staff traditionally serve as the think tank for the ancient Venetian oligarchy and its cothinkers in the City of London and the older Swiss banking families. It is these oligarchical families, as *EIR* has documented, who invented the "postindustrial" thesis, in their efforts to weaken the United States, West Germany, and other industrial nations.

Supply-side was stacked from the beginning to promote deindustrialization, *EIR* has learned. The scheme was drafted in 1961 by Canadian economist Robert Mundell, then a staff economist at the International Monetary Fund in Washington, D.C. The IMF is the supranational body created by the BIS central banks after the war to impose Malthusian austerity on Third World nations.

As Mundell told a researcher recently, his ideas were shaped under his professor, Lord Robbins, chairman of the London School of Economics and frequent counselor to the BIS. Robbins was himself the leading disciple of Friedrich von Hayek, the Vienna monetarist and godfather of the "shock therapy" school of tight money. Mundell today is the chairman of the Italian aristocacy's private-sector advisory board to the BIS, the Siena Group.

"Tight money was the very basis of supply-side economics," Mundell himself stated recently, "because the idea was first and foremost to avoid inflation. I then came up with the theory that we could add to this a tax reduction, instead of the classical tax increase, to provide incentives for investment. But the touchstone was tight money."

In other words, supply-side economics is Newspeak. Labeled a policy for industrial growth, it is meant in fact to promote the economic contraction policy of the 18th-century ideologue Parson Malthus, as supply-siders readily admit. Malthus wrote that since population grows faster than scarce resources, the best policy is to

reduce industry, so as to reduce the population.

Mundell left London, moved to the IMF Research Department in 1961, and proceeded to publicize just this thesis. The next year, he published it in the IMF Staff Papers, where it received wide circulation in the United States.

Mundell in 1967 moved to a professorship at the University of Chicago to work with Milton Friedman, the leading U.S. "shock therapy" monetarist, and Arnold Harberger, chairman of the Chicago Economics Department.

Malthusian premise

There they firmly grounded supply-side economics on the genocidal policies of Parson Malthus.

"We worked from the premise that economics is the science of how to get the most out of scarce resources," Harberger said in an interview. "We based ourselves on Malthus, and on Adam Smith. With tight money, resources were going to be very scarce. So the whole point of our tax cut was to get people to produce more by removing the disincentive of taxation."

Harberger and Mundell both affirm that the intellectual author of their tax incentive scheme was Sir Jeremy Bentham, economist to the 19th-century royal British East India Company, and his quack psycho-economic "pleasure-pain calculus." According to Bentham, man, like any animal, will do more work, which the British consider a form of "pain," provided that he receives marginally more money, food or other reward, thereby maximizing his "pleasure." Like a donkey, say the supply-siders, give the U.S. taxpayer a marginal increase in take-home pay, and he'll work more.

Militant supply-siders insist it doesn't matter what the donkeys do with the tax-cut proceeds—for with tight money, they'll never invest it in industry. Taxpayers are free to either build homes or gambling casinos. As William Fellner, a close collaborator of David Stockman at 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."

And in a tight-money environment, industry is definitely not profitable. By the early 1970s, the BIS itself began holding seminars for central bankers on the new supply-side doctrine to explain how it could be used to sell the "postindustrial" society, as our Fed source reported to me.

The sales pitch

But that was not what the public was told. When the supply-side debate finally hit the press big, Mundell's theories were billed as the ultimate in a dramatic new variety of economic-growth policy.

Supply-side actually received its first press in 1968, when Chicago's Milton Friedman and his friend and protégé Robert Mundell staged an argument over whether President-elect Richard Nixon should cut taxes, in order to bill Mundell as a "progrowth" alternative to Friedman. Friedman and Mundell called in a *Chicago Sun Times* reporter, Mundell recounts laughingly, who wrote a story on Mundell's call for tax relief and Friedman's violent opposition. "Split at Chicago School" ran the headlines. No mention was made of the tight-money policy

Then supply-side went to Washington. Mundell and Friedman had one of their bright young Chicago students, Arthur Laffer, hired on as chief economist to the Budget Office in 1971. Laffer's boss at Budget was Friedman's friend George Shultz, for 20 years the leading labor economist at Chicago, and today a supply-side convert. Together, Shultz, his Budget deputy, Caspar Weinberger, now secretary of defense, and Laffer reorganized the federal Budget Office into the currrent Office of Management and Budget, giving it the tremendous new powers that Laffer's close collaborator David Stockman enjoys today.

Laffer used his prominence at OMB to publicize the supply-side thesis, by drawing the now-famous "Laffer curve." The curve is based on the most elementary fallacy. It purports to show that because rising tax rates discourage investment, which is true, then merely cutting tax rates and nothing else will increase investment, which does not necessarily follow—especially with tight money!

Laffer rose to national fame during 1974, when *Wall Street Journal* editorial page editor Robert Bartley, another student of Milton Friedman, put Laffer and *Journal* staff writer Jude Wanniski in touch with neophyte congressman Jack Kemp, the former Buffalo Bills quarterback who had done a stint as public-relations man for the Marine Midland Bank.

"Jack's unhappy that he's not getting any publicity," said Bartley of Kemp, who was trying to write a tax bill. The *Wall Street Journal* fixed that, once Kemp bought the Laffer supply-side program, and publicized the Laffer curve widely. "I just went wild over that curve," said Wanniski. Meanwhile, Mundell and Friedman had another Chicago student, Paul Craig Roberts, hired as Kemp's tax-bill writer.

Roberts and Laffer then assigned Chicago economist Norman Ture, yet another Friedman student, to do a hoked-up econometric proof of the Laffer curve, in what has got to be one of the biggest con jobs in economic history. Ture, now undersecretary of the U.S. Treasury for tax policy, invented a program that purported to show that a tax-cut bill written for Kemp by Roberts and Laffer would boost GNP by $151 billion

and produce a net increase, not decrease, of $5.2 billion in tax revenues.

"No one believed it, not even Jack," Roberts admitted. "But he knew it would get him attention, so he went ahead and used it."

As for Kemp's "anti-austerity" credentials, by 1975 Kemp "was a confirmed Friedmanite," Ture told a journalist. "Friedman is one of Kemp's personal inspirations. They are close personal friends. Kemp has read everything Friedman has ever written.

"In fact, all of supply-side economics is based on Friedman's classical theory. If the Fed issues too much credit, there is inflation. To stop this, reduce the supply of money, and increase the supply of goods through tax cuts. You can't have one without the other."

Counting up the results

The culmination of supply-side economics is found in our new budget director, David Stockman, who got his post with the combined backing of Jack Kemp and Canadian economist Glenn Campbell, the head of Milton Friedman's Hoover Institution.

Stockman, Kemp, and Jude Wanniski today are acting to implement the current economic policy of the Bank for International Settlements. Once again, it is Carter administration policy: the systematic reduction of world population as called for in the Carter *Global 2000 Report* (see page 51).

Global 2000, which calls for the elimination of 2 to 4 billion people through economic austerity between now and the year 2000, was first conceived by the same European oligarchs who run the BIS. In 1976, *EIR* Contributing Editor Lyndon H. LaRouche, Jr. met with BIS directors, and warned them that the BIS and IMF tight credit and budget cut programs would mean genocide in the Third World by 1980. "Yes," the BIS officials agreed, "that's probably true. But the policy is necessary."

In the United States, Stockman's budget cuts will mean sub-zero economic growth, and sub-zero population growth. Supply-side economics means the planned shrinkage of our urban populations, as transfer payments are deliberately cut off to "allow some cities to die and people to be removed," said Heritage Foundation analyst Stuart Butler, a consultant to Jack Kemp, recently.

According to Harvard sociologist Daniel Bell, Stockman's mission at OMB is to use his "slash and burn" approach to the budget to push the United States "toward the postindustrial future outlined in the Carter administration's President's Commission on a National Agenda for the Eighties." The Carter Agenda Eighties report called for the dismantling of heavy industry in U.S. northern cities and the dispersal of populations out of the cities into other areas of the country.

Bell, whose 1973 book *The Post-Industrial Society* first publicized the idea of deindustrialization, and who is a member of the Carter Agenda Eighties commission, told a reporter that he had been one of Stockman's professors during Stockman's Harvard days, and that Stockman "had maintained a consistent outlook dating from his student days . . . as a believer in the postindustrial thesis. Stockman's idea," Bell said, "is to remove all government impediments to the postindustrial society and let market forces take care of the rest."

"A particular postindustrial barometer," Bell said, "is Stockman's cuts in internal improvements and related programs. . . . This gives industry the message that the free ride is over. It will force investment into areas that are profitable, such as high-technology electronics and the service industries.

"Unfortunately, Stockman cannot talk openly about his 'postindustrial' ideas in his current environment," Professor Bell added.

"Stockman's role is to let Chrysler and other heavy industrial companies like it crash, to create a permanent labor pool for the postindustrial corporations," Stuart Butler of the Heritage Foundation told an interviewer recently. "We have to let them know that we're not going to rebuild these old industries. That's why Stockman was the only congressman from Michigan to vote against the Chrysler bailout, and Kemp agrees. They want to allow the old industries to go."

Population in U.S. cities can then be reduced, Butler said. "The budget should be structured, Stockman believes, so that people aren't locked into cities by subsidies. Unemployment extensions, welfare, food stamps tend to keep people in areas like Detroit, which can't support them. So the subsidies should be removed through the budget, which Stockman is already doing. That will reduce urban populations."

In the Third World, the supply-siders are calling for more overt mass population reduction. In the March 2 *Wall Street Journal*, Jude Wanniski, under the title "The Laffer Curve and Foreign Policy," denounces the "development model the U.S. urged on the rest of the world after 1945. Infrastructure—roads, waterworks, power plants, steel plants, docks, even a steel industry—was advanced as the key to development." Such industrialization, he writes, was government "interference," a "disincentive" to the individual. Representative Kemp, aides say, plans hearings soon in the House Appropriations Committee on this topic.

Such industrial programs, Wanniski and Kemp believe, should be shut down, and replaced by tax cuts, "incentives for people," instead of "things." In many of these countries, these programs stand between millions and starvation. Counting up the results of supply-side economics in the Third World will have to be done as a body count.