Tells the Facts and Names the Names

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Major U.S. Bank Urges Zapatista Wipe-Out:

"A Litmus Test for Mexico's Stability"

In the name of investor confidence, a powerful U.S. bank is calling on the Mexican government to crush the Zapatista insurgency in Chiapas. Heading up the larger Wall Street war party is Chase Bank, specifically its Emerging Markets Group, which has billions at risk in Mexico. Chase's Jan. 13 "Political Update on Mexico," passed to **CounterPunch** by a banking insider, states bluntly: "The government will need to eliminate the Zapatistas to demonstrate their effective control of the national territory and security policy."

Chase is under no illusions that the December crash of the peso was prompted by the Zapatistas. It is fully aware that the implosion of the Mexican economy was caused by the overvaluation of the peso that enabled U.S. investors such as itself to convert their killings on Mexican bonds into the safety of the dollar.

U.S. financiers and political strategists now fear that a Mexican government led by the novice Ernesto Zedillo – rather than Washington's trusted agent, ex-Pres. Carlos Salinas – will waver, temporize with the Zapatistas and seek to placate domestic discontent.

But any appeasement of popular fury will come at the expense of foreign investors, whose security in Mexico was the fundamental purpose of the NAFTA agreement. Hence the need to finish off Subcomandante Marcos and his comrades. As the Chase Update put it, "While Chiapas, in our opinion, does not pose a fundamental threat to Mexican political stability, it is perceived to be so by many in the investment community."

Chase plays down the possibility of a negotiated settlement to the conflict in Chiapas, saying "it is difficult to imagine that the current environment will yield a peaceful solution." Zedillo may not be able to gain the confidence of the Zapatistas and their supporters because "the monetary crisis limits the resources available to the government for social and economic reforms." In other words, foreign investors should have first rights to the dwindling reserves at the Mexican treasury, which will leave almost nothing left to implement anti-poverty programs Zedillo has promised for Chiapas.

The author of the Emerging Market Group's memo is Riordan Roett, director of Latin American Studies at the Johns Hopkins School of Advanced International Studies and now on a leave-of-absence while serving as a Chase advisor. Known as a conservative but rational sort in academic circles, Roett's views have hardened since he went to work full-time for Wall Street, in the grand homicidal tradition of such academic policymakers as Louis Adolphe Thiers, Walt Rostow, Henry Kissinger and Herman Cohen.

Roett is said to be particularly bitter over events south of the border because, an informant tells us, he had assured Chase executives that Zedillo – whom Roett has known and worked with for a decade – could be counted on to do the bidding of foreign investors. Comforted, Chase increased its Mexican investments, only to take a beating when a huge trade deficit forced Zedillo to devalue the peso.

Roett also calls on the Mexican government to take a hard-nosed approach to other difficulties it is facing. The PRI, Mexico's ruling party, has grim prospects for elections scheduled in five states this year. Roett proposes that the PRI solve this problem by stealing the vote. "The

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Patriotism & Scoundrels

"The prestige of the president, the Fed chairman and the leadership of both houses in Congress has been committed. [If Congress kills aid to Mexico] the feeling in the rest of the world would be that we are a nation in disarray, a country incapable of addressing a crisis. The psychological blow would be enormous."

– Robert Hormats,
vice chairman,
Goldman Sachs Intl.

Hearts and Minds

Fed Hand-Outs to "Hurrah" Profs

Having successfully choked off the threat of a vigorous recovery by raising interest rates seven times in the past year, Federal Reserve Board Chairman Alan Greenspan has announced himself pleased with his exertions on behalf of bond holders and other investors. "The very torrid rate of growth that we had through the latter part of 1994 is slowing down, and that is an important plus for the economy," he told the Senate Budget Committee on Jan. 27.

Academics and professional economists favored by the press routinely praise Greenspan's stern leadership in the battle against inflation, even though the Fed chief's vigilance comes as the cost-of-living inches upward at its slowest rate in two decades and some 8 million people are still unemployed notwithstanding the economy's "torrid" growth. After one recent Fed rate hike, NationsBank economist Peter Kretzmer told *Bloomberg Business News* that the Fed is "looking six to nine months down the road and did the right thing." David Romer, an economist at the University of California-Berkeley, agreed, telling *The San Francisco Chronicle* that "the economy needs a bit more dampening. Keeping short-term interest rates as low as they were just wasn't sustainable."

The Fed's annual budget is $2 billion, pretty cheap when you consider all the harm it does.

Kretzmer and Romer are among 209 consultants – almost all university professors – whom the Fed and its regional banks hired as outside consultants between January of 1991 and June 30, 1993. The list was obtained by *The Bond Buyer*, a publication perused mostly by municipal bond lawyers, which found that the Fed had doled out more than $2.9 million during the period. At least five consultants took home more than $70,000.

It's hard to see why such contracts are necessary since the Fed maintains on its payroll more than 600 economists, statisticians, and professional researchers, making it the world's largest employer of full-time staff economists. All of the Fed's consultants must sign a non-disclosure statement, promising not to reveal any information "relating to past, present, or future activities" that might be considered "damaging to the board".

The outside economists on the Fed payroll come mostly from a tight clique of orthodox economists, mostly followers of Milton Friedman-style monetarism. The single largest recipient of Fed largesse was David Wheelock, a University of Texas professor of economics who collected $110,024 for providing services to the Federal Reserve Bank of St. Louis over a period of 18 months. He later left academia to join the research department of the St. Louis Fed.

Other winners in the Fed sweepstakes include:

- Thomas Sargent, a founder of the "rational expectations" movement and economics professor at the University of Chicago, who earned $21,680 on six contracts. Sargent is a senior fellow at the Hoover Foundation, where he worked closely with monetarist icon Friedman.
- Prof. Bennett McCallum of Carnegie-Mellon University in Pittsburgh, who earned $29,258 in consulting fees from the Fed. He is a close colleague of Allan Meltzer, head of the "Shadow Open-Market Committee," the group of self-appointed right-wing economists who police the Fed's policies.
- Kretzmer of NationsBank, who earned $71,960 while serving as a visiting scholar at the Federal Reserve Bank of Kansas City.
- Romer, who gave a series of seminars at Fed headquarters in Washington. *The Christian Science Monitor* profiled Romer's views last year, in an article titled "The Fed Stands Alone As Recession Rescuer."

The Bond Buyer interviewed some of these consultants, all whom defended their intellectual integrity while describing the Fed's hiring of outside contractors as a useful way for the agency to stay on top of developments in the field. Romer labeled the program "pretty harmless," and called it, not surprisingly, "money well-spent".

Rep. Henry Gonzalez, outgoing chairman of the House Banking Committee, sees the matter in a somewhat different light. "The Fed is simply buying off potential critics by holding out contracts which offer academics extra money and use of the Fed's facilities. No agency that has to justify its spending would dream of this kind of extravagance and waste."

Scrutiny of such Fed slush funding is difficult, or impossible. The Fed is not funded by money appropriated by Congress, but by its own direct and unlimited access to the currency. Its annual budget is $2 billion, pretty cheap when you consider all the harm it does. ■

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Zedillo administration will need to consider carefully whether or not to allow opposition victories if fairly won at the ballot box," he writes. "To deny legitimate electoral victories by the opposition will be a serious setback in the President's electoral strategy. But a failure to retain PRI control runs the risk of splitting the government party."

Roett has been lobbying fiercely in Washington to promote his scorched earth policy for Mexico and to demand that Congress quickly approve Clinton's $40 billion bail-out of Chase and other big investors – a problem solved when the president, faced with sure defeat in Congress, used emergency powers to authorize a new rescue package. Roett has briefed Bob Dole; testified before the Senate Steering Committee, which musters conservatives such as Trent Lott and Malcolm Wallop; advised State Department officials; and addressed hundreds of political and financial leaders at a Jan. 11 seminar organized by the Center for Strategic and International Studies (CSIS).

Roett bordered on hysteria at the latter affair. Saying that clients were always asking him why the Mexican government couldn't control the Zapatistas, Roett argued that it was "essential, from the investor point-of-view, to resolve the Chiapas issue as quickly as possible." He conceded that his call for war, if heeded by Zedillo, might provoke negative repercussions internationally, but there were "always political costs in bold action".

Roett's remarks were warmly received by his audience. Elliott Abrams furiously scribbled notes during his presentation while nodding his head in approval. Syndicated columnist Georgie Anne Geyer wrote an article a few days later saying that no one at the seminar "explained [Mexico's situation] better" than Roett, adding that scholars and financiers in attendance "seemed to agree that while ... [the Zapatistas] do not threaten a wider rebellion in Mexico, they have become a litmus test for Mexico's stability."

Dalal Baer, a Senior Fellow at the CSIS and moderator of the seminar, thanked Roett for his comments and lamented the dilemma faced by Mexico, pressured to open up its political system even though "financial markets might not respond positively to increased democracy because it leads to increased uncertainty." Like Roett and many other "academics," Baer is a creature of Wall Street, serving as an advisor to Bear Stearns & Company.

David Malpass, a director at Bear Stearns, said that in exchange for a U.S.-organized bail-out, Zedillo should appease foreign investors with a "giant reestablishment of confidence." Malpass and others suggested new privatizations, allowing 100 percent foreign ownership of the banking system, and opening up Mexico's oil industry. Though not discussed at the seminar, some House Republicans, acting at the behest of Jorge Mas Canosa, head of Miami's Cuban American National Foundation, are also demanding that Mexico cut off commercial credits to Cuba.

For now, Zedillo and a PRI majority will likely reject Roett's final solution for Chiapas. An official from the Interior Ministry at the seminar said the Chase man's call for war was "inadmissible."

But prominent forces in Mexico will be heartened by Roett's analysis. Last Dec. 18 a group of Mexican businessmen reportedly met with Zedillo to demand that the new government go on the offensive in Chiapas. Some high-ranking military officials have long been lobbying for war and, according to reports from Santiago and Buenos Aires, military advisors from Chile and Argentina – two of the most brutal of Latin America's armies, responsible for tens of thousands of deaths during the Seventies 'dirty wars'– have been sent to train Mexican troops.

The parallel here is with the dispatch of Argentine officers to train the Nicaraguan *Contras* at the start of the Eighties. ■

Hello History, Get Me Rewrite

The economic collapse of Mexico, only weeks ago a model Third World nation in the eyes of U.S. financiers and journalists, has required overtime work at the History Rewrite departments of major newspapers. Reporters have worked hard to convince readers that blame for the crash lies solely with the Mexican government, which stubbornly resisted the lessons offered by its First World tutors.

Keith Bradsher of *The New York Times* promoted this line in a Jan. 2 article, "The World Shifted, but Not Mexico." According to Bradsher, Mexico "failed to respond quickly when the economic world around it began to change," and adapted an economic "strategy [which] flew in the face of advice from officials of the International Monetary Fund."

This is nonsense. During the past five years no nation has been more rigorous than Mexico in implementing recommendations from the IMF, which hailed the country as a model when its economy was riding high. In fact, both the Fund and its sister institution, the World Bank, constantly claimed credit for Mexico's "economic miracle."

Back in March 1992, the *Financial Times* of London reported on the "growing intimacy" between Mexico and the World Bank. "[Mexico is] the darling of the bank's economists (and its major shareholder, the U.S.)," said the story. "The bank does not need to force Mexico to do anything; the two sides agree on almost everything ... World Bank economists and Mexican officials often spend weekends together brainstorming on policy issues."

In September of 1992, *Reuters* ran a story, "Mexico Old IMF Hand 10 Years After Debt Crisis," saying that Mexico was "almost universally viewed as a model for economic recovery in the developing world," and that the country was "assuming a low-profile, professorial role" at the annual meeting of the IMF. *Reuters*' Janet Duncan said that then-Finance Minister Pedro Aspe – now in disgrace – "was at ease offering advice to Latin American neighbors ... beginning the process of spinning off state-owned firms." Aspe's colleague, Jose Angel Gurria, then-undersecretary for international finance, had "been called on by banks to soothe countries' last minute doubts in some recent debt negotiation deals."

Such cheerleading continued right up until the peso collapsed last Dec. 20, at which point the Fund and the World Bank made haste to distance themselves from the catastrophe. Bradsher and others cobbled together the press releases absolving them of all blame. ■

Remembering Auschwitz:

An Early U.S. Response

Among the first institutions in the U.S. to envisage a memorial to the Holocaust was the Central Intelligence Agency, which set about constructing a gas chamber for its own purposes soon after the end of WWII. The Agency was joined in this endeavor by the U.S. Army Chemical Corps, which used eight convicted Nazi scientists to advise on such technical problems as might arise.

At least as early as 1950, the Agency's scientific staff and advisers were brooding on the practical uses of gas. "The possibility of using gas chambers or airtight rooms as a means of surreptitiously rendering a subject unconscious or to cause him to breath some type of gas which could make the subject more suggestible or pliable has long been considered," ran a CIA memo from that year, published here for the first time. "We have felt that this could possibly be done at a specially-designed permanent-type installation."

The same memo recommended carbon dioxide as a possible gas to be used. "Under laboratory conditions, as low a concentration as 6% CO_2 causes headaches and confusion; how long it will take to produce unconsciousness is uncertain.

The CIA was soon operating a gas chamber in Maryland. Together, Nazis and Chemical Corps officers pored over documents retrieved from Auschwitz.

Eventually as the S. [subject] breathes he increases the CO_2 concentration, which complicates the problem. Also eventually he ceases to breath, and it will take artificial respiration for recovery. The safety margin at various ranges of concentration must be determined."

Troubling the CIA technician was the matter of the man at the controls of the gas chamber during the interrogation session. "More difficult would be the problem of how to keep the Operator alert at the same time," reads the memo. "No answer to this, at the moment."

The memorandum also pondered the pros and cons of oxygen deprivation. "As with Carbon Dioxid [sic], it is a question of how tight a room, and how close a measurement of gas, would be needed. Oxygen may well take more fine detail in its use than would CO_2, but it would produce a wider range of desirable mental states. Again, the Q, how to protect the Op from the same states".

A later memo of February 5, 1952, reveals that the CIA had begun construction of a gas chamber which would be ready for use "in the near future". An April 11, 1952, CIA document indicates that such a gas chamber had already been used in an Agency experiment: "[Oxygen deprivation] affects the higher brain centers, resembling alcoholic inebriation" – inebriation being familiar to denizens of the CIA, a notoriously hard-drinking institution. "Some subjects become exhilarated, talkative, or quarrelsome, with emotional outbursts or fixed ideas. Some complain of headache or numbness."

In a joint program with the U.S. Army Chemical Corps, which brought in eight Nazi scientists, including the notorious Otto Ambros, the CIA was soon operating a gas chamber at the Edgewood Arsenal in Maryland. Together, the Nazis and Chemical Corps officers pored over documents retrieved from Auschwitz, setting up the same poison gas experiments as had been conducted a few years earlier in the labs of I.G. Farben before application in genocide.

Dr. Sidney Gottlieb, former head of the CIA's chemical and biological warfare program, has said that his assistant, Dr. Ray Teichler, was the CIA's liaison at Edgewood. At the same time, Teichler was assistant to the director of Edgewood's Medical Laboratories, the division charged with human experimentation. At least two of the Nazi scientists, Karl Tauboeck and Friedrich Hoffmann, also served as CIA consultants. Otto Ambros later worked for multimillionaire J. Peter Grace, long associated with the CIA and more recently overlord of the Grace Commission dedicated to reinventing government by removing most of its useful parts.

Dr. Albert Kligman, a participant in the joint CIA/Army program at Edgewood, provided prisoners for some of these experiments. He had his own climatic control chamber at Holmesburg Prison in Pennsylvania, where he subjected "prisoner-subjects" to extreme temperatures and pressure for long periods of time.

Gottlieb has indicated that the CIA used gasses in its operations. According to Congressional testimony he offered in the mid-Seventies, the CIA developed "a system, a potential enemy use, where they put a pipe under the door of a sleeping target and ran gas in, which would essentially anesthetize them, but had no odor so he would not be alerted to it. And during the anesthesia, they would come into his room and search it and take his documents and so on." ■

– John Kelly