

LaRouche hits 'massive fraud' by U.S. Fed

by EIR Economics Editors

"For years, the Federal Reserve System's index of levels of industrial output in the U.S. economy has been substantially fraudulent. The faking of data used to support the 'economic upswing' hoax by the Fed and U.S. Bureau of Labor Statistics has been the most extreme, most outrageously naked since 1967," said internationally renowned economist Lyndon H. LaRouche, Jr., Sept. 11.

"The mythical picture of substantial reductions in U.S. unemployment was cooked up by the simple trick of dropping approximately a million unemployed workers from the statistics," LaRouche reported from results of investigations by the New York economics staff of *Executive Intelligence Review*. "During the past several weeks, our New York economics staff has pulled together and checked both the figures which the Fed claims it has used to compile its forecast, and the figures which the Fed claims are the result of using that data. A few of the most blatant cases of Fed fakery in this connection are:

"The Motor Vehicle Manufacturers' Association reports U.S. 1982 production as 5,157,000 cars, and January 1983 production as equivalent to 5,180,000 cars per year—an increase of about one-half percent. But the Fed's Industrial Production Index for automobiles, supposedly based on this data, increased from 86.6 to 92.8 during the same period, or 7 percent! In effect, the Fed added about 350,000 cars to its January index which were never produced. The American Iron and Steel Institute, another trade association, reports 1982 shipments of steel products as 59,783,000 net tons, and

February 1983 shipments at 4,588,479 tons for the month, or a fall of 7.9 percent below the average month of 1982. The Fed's index for the same category, supposedly based on AISI numbers, increased by 8.7 percent for the same period. This lie added about 800,000 tons of imaginary steel to the February recovery."

LaRouche referenced investigations made separately by two New York economics staff members, including compilation of comparative data by Leif Johnson of that staff.

What follows is a list of percent-changes from 1982 average-month production to the production level of each of four months in 1983, for seven sample commodities. The topmost figure in each case is that reported by the Federal Reserve in its "not seasonally adjusted" Index of Industrial Production. The lower figure is that reported by the industry association from which the Fed claims to obtain its Index data.

If one corrects the Fed's overall Index of Industrial Production, seasonally adjusted, for just the seven commodities listed, which comprise only 1/13th of industry, the Fed's 0.4 percent drop in February (from 1982 average) becomes a 1.2 percent fall, and the Fed's 2.9 percent increase in April shrinks to 2.5 percent. If, hypothetically, one extended the ratio of fraud shown in these seven commodities to the entire Fed Index, and corrected the other 12/13ths for it, it would then show that 1983 industrial production through the most recent, July, figures has averaged below that of 1982.

"The true level of economic activity is probably buried

away in the Federal Reserve System working-papers, which they have repeatedly refused to make available to our staff or to any of the associations supplying original data, so far as we have been able to determine by conversations with officials of those associations," LaRouche reported. "At first glance, it appears that this Fed faking of reports was part of a campaign to gain a renomination of Federal Reserve Chairman Paul A. Volcker. There is no doubt that these faked reports were very influential in prompting the misinformed President to renominate Mr. Volcker.

"Whatever the motives of the Fed's staff in cooking up its reported figures, the effect of the fakery is now a major national-security issue on two fronts," LaRouche emphasized.

"First, by falsely reporting the U.S. economy to be embarked on a sustainable, major upswing, the Fed influenced the President to believe that no changes in present governmental or Federal Reserve policy should be permitted at this time. Not only did the President's popularity sink massively as a result of such a misinformed decision, but the continued erosion of the U.S. economy blocked spending on vital national-defense programs at a time that such weakness is being dangerously exploited by the Soviet leadership in several parts of the world.

"Second, this misinformation by the Fed and the Bureau of Labor Statistics has contributed massively to misshaping the foreign policy of the United States. Specifically the Ibero-American nations from Mexico southward have been caught in a worsening debt-crisis since the summer of 1982. The governments and monetary authorities of those nations have been told, and the U.S. government apparently believed, that a U.S. economic upswing would mean that the upswing in the industrialized countries would mean larger exports-earnings for Ibero-American nations, and therefore improvement in those nations ability to carry debt service.

"Exactly the opposite has occurred. The debt of all Ibero-American nations is now collapsing. Under present economic trends and present policies of the International Monetary Fund, more than \$300 billion of Ibero-American debt will never be paid. Until there is a recovery in the U.S. economy, and also drastic, far-reaching reforms in the international monetary order, a world already at the brink of thermonuclear war will plunge more deeply into a depression worse than that of the 1930s.

"The faking of economic statistics in an effort to mislead the President of the United States on fundamental policy-decisions is a monstrous crime. At the least, the President has the right to fire the whole lot of those Fed and other bureaucrats responsible for cooking up this hoax."

Strategic impact on the Western Hemisphere

"Whether or not the nations of Ibero-America are directly military allies of the United States globally, U.S. trade with those nations represents a significant percentile of total U.S. exports and domestic-employment potential, and those na-

tions are vital suppliers of essential products required by the United States. Bolivia alone is potentially a major supplier of strategic metals to the United States, and therefore a nation whose security and economic development are in the most vital interest of the United States.

"In the case of the Republic of Mexico, that neighboring nation was pressured by the U.S. government and Henry Kissinger last autumn into imposing upon its economy one of the most savage economy-wrecking programs suffered by any nation during the past 35 years. Mexico squeezed a massive payment to foreign creditors out of the blood and bone of its economy and people, which it delivered as promised last month. Now, Mexico faces equally massive new debt-payments in the future, but has no resources by which it might repeat the asset-stripping operations imposing upon it during the past ten months.

"As a consequence of savage stripping of its economy, Mexico has been pushed into the threshold of an explosive social crisis, a seething crisis being exploited by various foreign meddlers attempting to push Mexico into a state of civil war. Impelled by misadvisers such as the corrupt Henry Kissinger, and by fraudulent statistics from the Federal Reserve System, the United States has tolerated policies which now threaten to turn the entirety of the region below our southern borders—from the Rio Grande to the Panama Canal—into a permanent area of civil war and genocide, comparable only to the 1618-48 Thirty Years' War in Central Europe. These policies are a major threat to the security of this hemisphere, policies encouraged by fraudulent statistics of the Federal Reserve.

"In general, the United States has been misled by such Fed fakery into supporting the demands of a wicked group of Swiss private bankers, to impose what are called 'IMF conditionalities' upon all the nations of this hemisphere. These conditionalities are in fact a copy of the so-called Rohatyn Plan which turned New York City, from 1975 onwards into a rotting blend of rubble and high-rise houses of prostitution, a new Sodom and Gomorrah, seething with a massive new epidemic called AIDS, which could possibly spill over to become an epidemic within the population as a whole.

"The model of the IMF 'conditionalities' policy is the policy instituted by Nazi Finance Minister Hjalmar Schacht during both the Weimar Republic and the Nazi period. There is no difference between the policies of Felix Rohatyn and those of Nazi Finance Minister Schacht. Furthermore, the Bank for International Settlements, whose Fritz Leutwiler is a leading spokesman for the IMF 'conditionalities,' was an intimate collaborator with the Hitler regime in Germany, to the degree it has been documented by researchers in published texts as a recipient of gold taken from the bodies of Nazi concentration camp victims. Many leading Swiss financial interests were in the past, and some also in the present, trusted agents of the Nazi International. According to the documented words of Adolf Hitler himself, the Nazi death

camps were the indispensable basis for the Nazi war economy, a simple continuation of the austerity policies of Schacht, the policies of IMF 'conditionalities' today.

"Such IMF 'conditionalities' policies are not only immoral, and unlawful under the terms of the Nuremberg Code. They are a menace to the vital strategic interests of the United States. As the Swiss bankers emphasize repeatedly, the objective of these policies is to halt economic growth worldwide. The IMF says to all of the nations of Ibero-America: 'You cannot pay debt-service? Very good, we will solve your problem by refinancing your debts at usurious rates while we shut down large chunks of your present production.' Such policies are insane; they are clinically insane.

"The leading effects of these policies are the following. U.S. exports, and employment in exports and related industries, fall; that is directly against our vital strategic interests. The ability of these economies to supply vital needed products to the United States is collapsed, as vital industries of those nations are collapsed by IMF measures; that is a direct attack on the vital strategic interests of the United States. The social effects of such austerity upon populations are to create growing political instabilities within those nations, to tend to transform the entire continent into conditions much worse than presently exist in Central America.

"In response to that, critters like Henry Kissinger say what Kissinger and others said repeatedly during a recent conference in Vail, Colorado. 'If these countries don't pay, we move in and seize their physical assets.' These madmen propose to turn all South America into a super-Vietnam War. Is Kissinger truly an agent of Yuri Andropov or Marshal Ogarkov? He might as well be, with such policies. If we accept or tolerate such IMF 'conditionalities' policies, and plunge ourselves into another Vietnam War to Soviet strateg-

ic advantage, kiss the United States good-bye!

"Brazil is not paying, and cannot pay. Argentina is not paying, and cannot pay. Mexico has paid, and cannot pay again. All Ibero-America cannot pay under present policies and circumstances. Anyone who believes otherwise is watching someone's script for the TV series 'Fantasy Island' or 'Love Boat,' escaping from the terrifying real world to watch a silly fantasy in front of the boob tube. Reality is harsh, and bows to no Hollywood script-writers or embezzling statisticians around Washington. Reality is here; what foolish admirers of Volcker and the IMF said never could happen, has happened. Reality has arrived.

"We must understand the strategic realities which the U.S. State Department delegation at Caracas last week refused to admit existed. Either we stop the babbling of State Department soft-headed types on both the Ibero-American situation and strategic issues generally, or there will be nothing to do but kiss the United States goodbye."

The real debt-crisis

"United States international bankers, eyes screwed up to a point of killer-rage, insist that the only problem is the economic mismanagement of a few governments below our southern borders. The truth is, that much of the U.S. banking-system is near the edge of bankruptcy, and these mad fools delude themselves into believing that they can solve their problems by acting like some comic-strip villain evicting the widow from her cottage in the dead of a winter's night. They propose implicitly to send U.S. military forces to conduct 'foreclosure proceedings' against the entire continent of South America. These men have gone mad.

"The debt of Ibero-America adds up to more than \$300 billion. It's a large sum, big enough to sink the U.S. banking

Percent increase in industrial production

From 1982 (average) to 1983 (month indicated)

PRODUCT	SOURCE	JAN. 1983	FEB. 1983	MARCH 1983	APRIL 1983	MAY 1983	JUNE 1983	JULY 1983
Auto	Fed	7.2	27.2	30.0	32.0	40.4	54.8	14.2
	Actual	0.4	14.7	33.8	23.7	37.6	52.0	6.5
Steel products	Fed	-2.3	8.7	20.4	23.6	30.2	23.3	—
	Actual	-8.0	-7.9	19.8	8.4	12.6	20.2	12.7
Hosiery	Fed	2.2	9.8	5.2	23.3	17.9	13.1	—
	Actual	-1.9	-0.7	8.2	12.5	12.4	11.0	27.6
Newspapers	Fed	-6.0	0.1	3.4	4.3	6.4	3.5	—
	Actual	-4.3	-9.0	4.4	4.3	9.5	2.6	—
Corrugated boxes	Fed	4.0	3.5	7.2	6.7	6.0	12.5	—
	Actual	2.0	-5.0	11.9	4.4	6.0	12.5	-0.1
Lumber	Fed	15.7	21.3	14.0	22.1	17.3	—	—
	Actual	14.3	15.6	22.2	19.6	23.0	26.4	—
Raw steel	Fed	-10.8	1.4	15.0	18.0	19.3	18.2	—
	Actual	-10.4	-8.7	14.7	17.3	19.3	12.3	11.4

system. It's peanuts compared to the real debt-crisis. The total Third World debt potentially in jeopardy is about \$850 billion. That's big; big enough to sink most of the banks of the world, even including the Swiss banks. It's peanuts compared to the real debt-crisis.

"The combined public and private debt of the United States is \$5.3 trillion. The combined public and private debt of West Germany is \$0.8 trillion, Italy \$0.4 trillion, France \$0.54 trillion. The debts of these countries are zooming, while production and employment are collapsing. The debt-problem of Ibero-America is relatively mere peanuts.

"A general international financial collapse, like that of 1931, could break out in almost any part of the world. What would turn waves of debt-defaults into such a financial collapse would be the chain-reaction set off by financial collapse of one of the leading industrialized nations, either in Europe or the United States. The whole system is on the edge right now; the crisis of Ibero-America is merely a small, if widely publicized aspect of the real problem. When the collapse comes, it will spill out of one country into all national economies, and before the first wave of 1931-style collapse has passed through, between \$1 and \$2 trillion of paper-values of stocks, bonds, mortgages, and so forth, will be wiped out, with as many as 80 percent of the banks of the United States hanging up a 'closed' sign on their doors.

"There is only one basic solution to this problem. We must put the United States into a 1939-43-style crash program of economic mobilization, and most of the Western world, including Ibero-America, too. We must take immediate, emergency action of profound and sweeping monetary reforms, designed to pump treasury-notes of governments, at low nominal interest rates, into lending for technologically advanced investments in job-creation and expanded production in agriculture, basic economic infrastructure, and industry, with heavy emphasis on advanced technologies in machine-tool categories of production and advanced capital-goods production for basic industry.

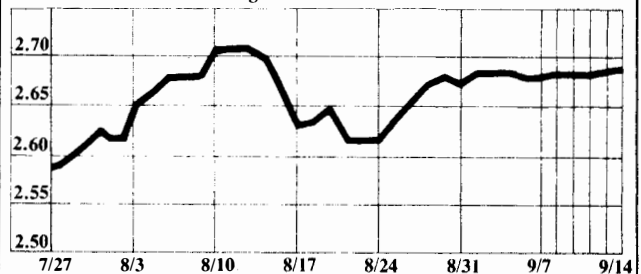
"The basic cause of our debt-crisis is those policies operating in the United States since Johnson's 'Great Society' program, policies intended to drive the United States and most of the Western world besides into a condition gloriously described as 'post-industrial society.' The economies of the world could develop levels of increased output of physical goods sufficient to liquidate existing masses of debt, if monetary reforms and crash-program efforts for that purpose were instituted before the expected financial collapse strikes.

"The rallying of nations of Ibero-America around policies of the sort I have proposed in Operation Juárez, and the frequent favorable treatment of my name in the leading newspapers of Ibero-America, is a clear signal that those nations are seeking the kind of collaboration with President Reagan on monetary-reform measures which I have recommended be considered. The time has come to accept their offer of such collaboration. It is time to cease basing our national economic and foreign policy on faked figures."

Currency Rates

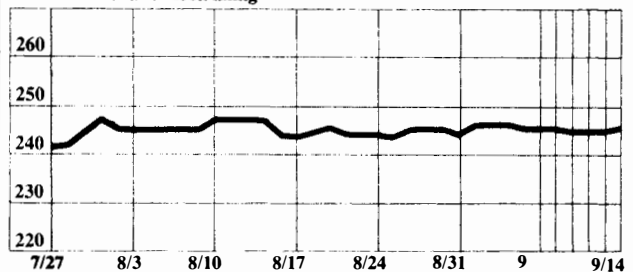
The dollar in deutschemarks

New York late afternoon fixing



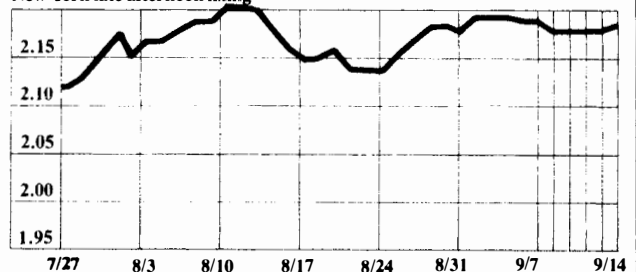
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

