

on foreign investment in India quickly announced approval of the project, which includes some contiguous areas of Karnataka and Tamil Nadu, but not the entire states. USWest was reluctant to accept the offer, and made it clear through the media that it would bid for the entire Karnataka circle. However, Secretary Brown's intervention changed the scene, and the project that USWest finally accepted included four telephone areas of Tamil Nadu and nothing of Karnataka. Reports indicate that Brown pushed USWest to accept the truncated project, which is of a far smaller size than the one the Indian government had earlier suggested but would have found politically difficult to deliver.

Brown saw clear mutualities in the economic reform India is carrying out and U.S. interests. He pointed out that one of the deals that was signed, to set up the Karaikal Refinery, would dramatically increase U.S. sales of petroleum exploration and refining equipment and services which could add up to \$100 million annually.

Financial sector reforms

However, Brown made it clear that the United States would like to see capital market reforms in India so that the banks of the two countries could have closer interaction. "More progress is required in the banking sector, which needs to be a less regulated and more open," Brown said. U.S. banks can make a major contribution to the banking system by helping Indian banks attract greater foreign investment. He pointed out that U.S. brokerage firms were already playing a significant role in Indian markets, and so were asset management companies. "But, we hope that the government will allow U.S. firms to trade on their own account," he said. In this context, he noted that India's stock market capitalization, at \$140 billion, is one of the largest in Asia.

In fact, Brown was pushing hard on behalf of American investors to open up certain still-unopened areas of the Indian market. He has asked the government-controlled insurance sector in India to be privatized, enabling American and other insurance companies to come in. Reports indicate that he has received tacit approval from the Indian prime minister on the subject.

Within days after Brown had left, the Indian stock market lost heavily on selected shares following some large withdrawals of foreign exchange by the foreign investment institutions. The institutions' move is most likely related to the Mexican crisis and the U.S. Federal Reserve's decision to hike U.S. interest rates by 0.5%. In addition, news from the World Bank that India's external debt reached a record high of \$92 billion in 1993, marking an increase of \$71 billion over 1980, and that foreign direct investment to India remains sluggish, may have begun to worry the foreign investors. However, neither Secretary Brown's efforts to project the stronger side of Indo-U.S. relations nor Washington's growing support to India can be faulted for the recent reverses, whether they prove temporary or permanent.

Mt. Pelerin wages war on French dirigism

by Mark Burdman

As *EIR* has reported, the conceptual command center for the present "Conservative Revolution" offensive, spearheaded by the group in the United States whose chief advocates are House Speaker Newt Gingrich (R-Ga.) and Sen. Phil Gramm (R-Tex.), is the Mont Pelerin Society. This is the umbrella grouping for "radical free market" ideologues, such as Nobel Prize economist Milton Friedman. It was launched in the late 1940s, with the backing of Winston Churchill, on the basis of the ideas of Austria's Friedrich von Hayek. Von Hayek, who in his later years lived in Great Britain, was a strong admirer of the ideas of such British East India free trade ideologues as Adam Smith and John Stuart Mill, and sought to synthesize their ideas with a "liberal" philosophical-economic policy tradition from the European continent.

According to a senior Mont Pelerin source in Europe who spoke freely "on background," one of von Hayek's chief obsessions during his lifetime was to undermine the tradition of state-directed credit for productive investment that had been promoted in France, beginning in the 17th century with Jean-Baptiste Colbert. That policy is known as "dirigism." It was reinvigorated and pursued aggressively in modern times by President Charles de Gaulle. Support for such state intervention is deeply rooted in the French population. Von Hayek's view, shared by his epigones today, is that their global objective of a fully "liberal free trade" regime and untrammelled financial speculation, could not be achieved, unless dirigism *à la française* would be discredited, beginning in France itself and then in other countries where dirigism is seen as an attractive policy approach.

The source noted that, even with the past years' increasingly liberal policies of Socialist President François Mitterrand and the various governments that have ruled under his presidency, whether socialist or "Gaullist," the support for a dirigist policy has not been weakened significantly in the population. Hence, Prime Minister Edouard Balladur (who will likely be France's next President following May 1995 elections) may have high popularity ratings in the polls, but this apparent popularity is seen to exist despite his measures to "privatize" key sectors of formerly state-owned French industry and his cozy relations with top figures in private banking and high finance.

Part of the upgraded offensive against French dirigism is

the appointment of Pascal Salin, professor at the University of Paris-Dauphiné, as head of the Mont Pelerin Society internationally—the first time a Frenchman ever held that post. Salin's chief ally inside the government is Minister of Enterprises and Economic Development Alain Madelin, who keynoted the Mont Pelerin biannual conference last year in Cannes, France. On Dec. 13, 1994, Madelin was heralded by the *Wall Street Journal* (many of whose leading lights are also in the Mont Pelerin Society) as "a fierce partisan of the free market and limited government . . . as close as you get in France to Gingrichian style." Madelin complained about the "cultural problem" in France, that "too many people live off the state . . . they aren't interested in change." He proclaimed his support for the "Anglo-Saxon model."

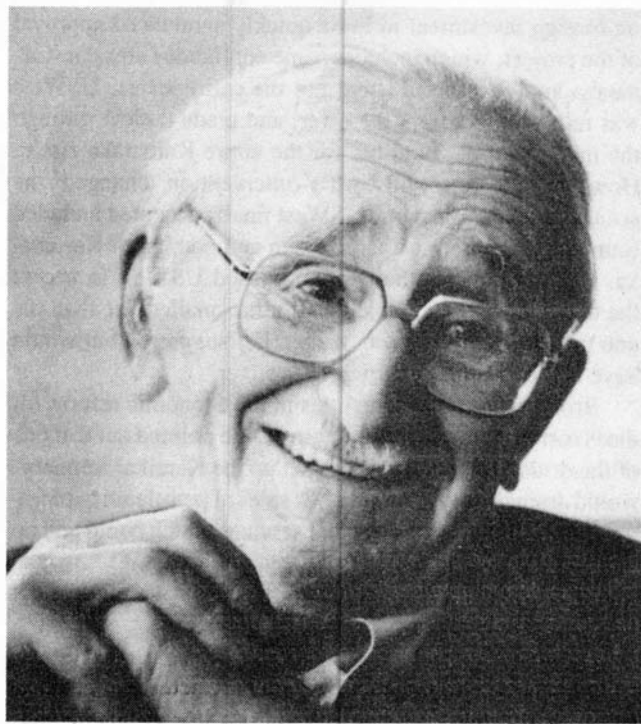
Attack on the Ecole Polytechnique

The Mont Pelerin figure singled out one individual in France who represents, today, what he considers to be "the enemy": Nobel Prize economist Maurice Allais. In the past several years, Allais has written a number of devastating exposés of the frauds perpetrated by the free trade lobby that is trying to impose the General Agreement on Tariffs and Trade-World Trade Organization regime on sovereign nation-states. American statesman Lyndon LaRouche has praised Allais as perhaps the only economist ever to win a Nobel Prize in Economics who is competent.

The Mont Pelerin source complained that Allais not only "distorts" the question of free trade, but that he is a "typical product" of France's Ecole Polytechnique. This is the institution that came to prominence in the 18th century, and produced some of France's greatest scientists, engineers, and military planners, typified by Gaspard Monge and Lazare Carnot. While the Ecole Polytechnique's conceptual powers were significantly weakened in the regime imposed on France after the defeat of Napoleon and the oligarchical Congress of Vienna of 1815, it still managed to produce such great figures as the scientists Louis Pasteur and Marie Curie.

One of von Hayek's pet gripes was against those Frenchmen who tried to impose the scientific rationality of the Ecole Polytechnique upon the realm of economics. He recommended, as a counter, reviving a "specific form of liberalism, native to France, that was well-known in the first half of the 19th century, but which has since disappeared from French national consciousness," the source said.

In whatever diluted form it may now exist relative to the time of Monge and Carnot, the Ecole Polytechnique is central to maintaining the tradition of dirigism and "civil service" in France. Also of importance, is France's National School of Administration (ENA), which trains the country's civil servants. The Mont Pelerin figure sneered that people at ENA "know absolutely nothing about economics, they don't know about money, about interest rates, anything. They are only concerned with finding some prescriptions to apply for government policy."



Friedrich von Hayek, the mentor of the so-called Austrian school of economics, whose life-long obsession was to destroy the role of the state in fostering scientific and technological progress.

'The positive function of speculation'

This individual said this phenomenon was linked to a more generalized "ignorance about economics" in the French population at large. "If we were to ask Frenchmen whether they believe there is now a speculative bubble threatening the economy, the vast majority would immediately say, 'Yes.' That's the problem! In fact, there is no so-called bubble. All this talk of a growing divergence between the 'amount of speculative paper' and what people call 'the real economy' only shows that people in France don't understand what economics is, nor do they understand the positive function of speculation. Speculation brings in new options, new information, new creativity, and so it is positive and should not be regulated."

Pursuing this track of von Hayek-style virtual reality, the Mont Pelerin source affirmed, confidently, that "there is no danger of a new financial crash. In fact, the crash already happened, in 1987, and what we see now is the end of a period of crisis, at least for Europe, rather than the beginning of one."

Mimicking Gingrich's posture as a Robespierre revolutionary out to destroy the established system, he stated smugly, "I used to think that the Soviet Union was one integrated system that would hold together, no matter what the stresses. I was mistaken. I am now convinced that France is the next Soviet Union. The French nomenklatura is in for some big shocks."