

Neither Karl Marx nor Adam Smith: principles for a new economic miracle

by Dr. Jonathan Tennenbaum

Dr. Tennenbaum is European director of the Fusion Energy Forum and leads the working group which elaborated Lyndon LaRouche's concept of the "Productive Triangle." This speech was presented at the Schiller Institute's March 1-3 conference in Berlin. EIR translated it from the German.

With the end of the division of continental Europe, a coherent economic region has originated of over a half a billion people. Here we find the greatest concentration of industry, qualified labor, and infrastructure in the entire world. Here an economic potential lies at hand, which by far surpasses that of the United States and Japan combined.

If by means of an appropriate economic policy, it were possible to mobilize this fabulous potential in Europe, the resulting economic miracle should have extraordinary, positive effects on the whole world. In Europe itself, the edge would be taken off the dangerous social and political conflicts in the East, which at the moment appear to feed primarily upon the seemingly inexorable economic misery. Europe should become, for the billions of people in the developing countries who have to fight in forced poverty and backwardness for their mere existence, a star of hope. From the Soviet Union to the Far East, from the anguished Middle East to Africa and Ibero-America, the vast majority of countries would diligently seek occasion to join in somehow, with this new European-led economic miracle.

A new economic miracle in Europe, in which the Third World might have a part, should also have an urgently necessary and wholesome effect upon the U.S.A.—a country which finds itself in the middle of the worst economic crisis of its history, and hence has little else to offer the world but naked force and its weaponry. Instead of engaging in "flight forward" military adventures, America should be stimulated to look its domestic problems in the eye and resolve them.

Instead of the cacophony of today's world events, a new more optimistic note should gradually begin to resound. Thus might a new joint-European economic miracle contribute decisively in realizing a *pax in progressio et concordantia* [peace in progress and harmony]. Now there is already in existence, an elaborated economic policy which, were it adopted by the leading governments of Europe, would surely

lead to an unprecedented economic boom in all of Europe, including the Soviet Union.

Rail-centered infrastructure investment

At the center of this program lies the forced-march buildup of basic infrastructure, including the setting up of a European high-speed rail network for passenger traffic and computer-guided freight transport. The second important aspect is the modernization of energy production with its center of gravity around "second generation" nuclear technology for production of electricity, remote heating, and industrial process heat. The program would also include the renovation of the waterway system and the buildup of a modern communications net. From the standpoint of economic geography, the new European region should be organized in such a way that with the least investment, the greatest increase of productivity, and with that production of material wealth, would be reached.

To this infrastructure plan, there also pertains a catalogue of political-economic measures which are to be carried out on a national and European-wide scale. I should like here to discuss these measures in their basic features. It is above all a matter of a reform of credit and financial policy, as well as tax, tariff, and pricing policy. These measures are necessary, in part, to finance the infrastructure plan, to put into motion the necessary productive capacities, and as a general foundation of the new "economic miracle" which shall be unleashed by the increase of productivity that results from the building of infrastructure. It is not a question here of a full legislative package worked out to the last detail, rather it is a question of basic principles. The details will naturally look a little different in each country, and there are sufficient qualified tradesmen who might take up this task, once the rough outlines are given.

Now, since the end of 1989, the basic concept of such a policy, which originated with the American economist Lyndon LaRouche, has been available to the public. A detailed elaboration was published by *EIR* in an August 1990 report: "The Paris-Berlin-Vienna Productive Triangle—A European Economic Miracle as Engine for the World Economy." This study was presented and discussed thoroughly in numerous

conferences, presentations, and seminars. I have never found anyone who seriously doubted that the proposed program would lead to the promised economic miracle, and no one has made a better proposal.

Yet we have a problem: The policy of the "Productive Triangle" has, as of today, *not* been taken up by the current governments *nor* carried out—if you ignore a few weak signals from here and there. This neglect has serious consequences. The promising perspectives with which the reunification of Germany and the democratic reforms in Central and Eastern Europe first showed themselves, are threatening to be transformed into a horrible fiasco.

A part of the problem lies in the fact that the fundamental principles upon which the realization of the Productive Triangle are based, have not yet been understood. Not the least is the question of financing. Around this question, the shrieking is getting louder and louder. And besides, it is a political problem. Will we build up our infrastructure or not? If it is truly our *will* to do this—that is, if governments *will* to do this—then we will also find a way to finance it. To that end, there does exist a national-economic set of tools, which I will come to.

First, we must choose the approach of "physical economy." We think of political-economy as one vast, single enterprise, one single production process. We ask, how best can we conceive and organize this process, as a physical process that creates useful goods? Then we look at the financial "superstructure," and organize it such that it is best for realizing the necessary physical process.

Immediately, another hue and cry is raised: "You cannot think that way, that is planned economy!" Nonsense, that is competent economic *policy*, as it pertains to statecraft.

Economic policy is something like riding a horse. The state must give the general *direction*; but it were imbecilic to prescribe to the horse the movement of each muscle and sinew, as occurs in planned economies. The horse is the one which must do the walking.

It is thus possible, without falling into the errors of a planned economy, to give a general direction to investment activity. One follows the principle of task orientation. All we need is competent entrepreneurs, capable of making sovereign decisions, and we say to them: "Ladies and gentlemen, we wish to set into motion an economic boom in the productive sector. To that effect, we will set up credit and tax policy in such a way, that there will be, particularly in specific critical areas, extremely favorable conditions. And by certain state investments, above all in large infrastructure projects, we will enormously drive up *demand* for capital goods. Please organize your capacities accordingly. We will ensure cheap, long-term credit. Now, get to work!"

Economic policy and statecraft

Now I should like to take up the question of the so-called economic systems. It were better to speak of economic

methods, since giving form to economic relationships in a society is a question of *statecraft*. It is absurd to ascribe to the economy any kind of independent existence or authority, as the so-called experts do today, when, in the name of some purportedly sacred principles of economy, they carry out measures which ruin entire nations. No, economic policy is part of statecraft. First and foremost, it has the task of laying the physical foundations for the existence and well-being of the population over the long term. If an economic policy does not fulfill this task, it belongs in the garbage, no matter what ideological coloring it has or how many Nobel Prize-winners might swear by it.

There are, from an historical standpoint, essentially two main directions to economic policy, which stand in sharpest opposition to each other. Friedrich List, in the nineteenth century, called these two systems the "American System" and the "British System." List had in mind the sharp conflict between the Founding Fathers of the United States (Benjamin Franklin, Alexander Hamilton) and the ideologues of the British East India Company (the leading institution of the British Empire), chief among them Lord Shelburne and Adam Smith.

Today, it is difficult to discuss economic systems, above all because for the last 20 years, the U.S.A. has completely abandoned the erstwhile "American System," and today fanatically defends the "British System." Add to that the complication, that the vast majority of professional economists today no longer know anything about the American System. Thus it comes about that most so-called "economic experts," who visit the former CMEA [East bloc trading group] countries as economic advisers, preach nothing other than the British System. And that is very bad, since the British System, everywhere it is practiced, has as a consequence only looting, poverty, and terrible crises. That has been thoroughly documented and proven by List, Mathew and Henry Carey, and others.

The American System in essence looks back to the work of Gottfried Wilhelm Leibniz, upon his decisive improvement on the principles of Colbert and the so-called "cameralist science" in Germany. At its core we find the relationship between scientific and technological progress on the one hand, and the increase of the productivity of labor ("development of productive labor") on the other.

Legalized theft

The British System is often denoted as "free trade," and is today pawned off under the name "free market economics." Here I cannot go into all the details of the British System. Its essential core, however, we can quite easily characterize as *legalized theft*.

For example, let us look at the spectacle in the U.S.A. for the last few years of the so-called "junk bonds" and "leveraged buyouts." Speculative paper reached unheard of volumes: billions of dollars at a time. Recently, the American



Chris Lewis

The "free market" comes to eastern Germany: Street vendors sell military paraphernalia of the former East German People's Army, in front of Berlin's Brandenburg Gate.

Nobel Prize-winner and financial economist Merton denoted junk bonds as "investments to be preferred," with which one could easily cash in profits of 140-200% per year. One asks, where does such wealth come from? Since the American economy, even according to official figures, is shrinking, no one can make gains without many other people losing thereby. As for the losers, they are now standing on the street-corners.

One must relegate Karl Marx unequivocally to the British System. That is indeed a great secret, but I think that in the countries formerly part of the CMEA, people have gradually gotten a certain sense of this connection. The so-called "free market economy" is as much an ideology as is Marxism. Instead of the right party book as in the East, here in the West, the right credit card opens the door to the world of the privileged; you "have it made" with American Express.

The "social market economy" of Germany is a tangled mishmash of both systems, upon which, on the positive side, Christian social doctrine has had a significant influence. Even

though the West German economy, in comparison to the U.S.A. and many other countries, seems to stand out brilliantly, this is not thanks to the "social market economy," but rather, and much more, to the enduring influence of the classical tradition of Listian economics. Unfortunately, in practice, the West German economy is losing the tradition of List, as also the tradition of Christian social doctrine, while the influence of the British System is steadily increasing.

Precisely because of the confusion of the concept and the practice of the "social market economy" in Germany, it is, in our view, not an adequate model for the former CMEA countries. We should reach back to the uncounterfeited basic principles of the Listian or the American System, in their best historical form. And we can add to them the decisive improvements to the classical system, which correspond to the demands of modern times, made by LaRouche.

Principles of the Listian system

1) The only source of social wealth is the development of mankind's capacity for creative thought, hence the perfection of the *spirit* of man.

2) Natural resources, in and of themselves, are not wealth, for without the corresponding technology we have no way of using them. Without nuclear technology, uranium is a useless rock.

3) Wealth, however, does not lie in technology *in itself* without human labor, for technology *must progress* if society shall not go under. If we attempt in the long run to remain fixed at one technological level, in the process we gradually exhaust the resources which make the relevant technology usable. Then we must either invent new technologies, to open up new resources, or society will collapse.

4) New technology, technological progress, arises not only because man is capable of scientific discovery, but also because man in society, the laborer and the technician, is in a position to assimilate scientific and technological breakthroughs and apply them.

However, are discoveries and inventions casual events? Many people believe this, but on closer examination we can see that important discoveries in the history of science and technology are always found to be premised upon a specific *method* of creative thinking. This method of thinking belongs to culture; it is a way of thinking peculiar to the culture, which is transmitted from teacher to student, from generation to generation. This process we see in particular in the "Golden Ages," such as the Renaissance or the example of the "Göttingen School" of Germany's great scientific tradition in the nineteenth century.

The goal of statecraft

The condition of society, which we must strive for as the goal of statecraft, is thus a condition of continuous progress—one discovery after another, a continuous flood of admirable inventions, which gradually spread into all areas of

the economy and surround everyone with an atmosphere of creative joy. Thus, the worker in the factory will find joy in his work, since he is constantly dealing with new, interesting technologies, and not with the eternal repetition of the same routine.

Such a society must also allow for individual initiative to a high degree. The individual must have available to himself or herself enough freedom of action and decision to get an overview of cause and effect, about which he or she will make sovereign decisions. Hence the necessity for private property and private enterprise.

Above all, a strong, productive *Mittelstand* [small and medium-sized industries] is at the core of the Leibniz-List principle: capital-intensive family businesses in agriculture, high-technology firms in machine tools, repair shops, etc. That was always the basis for the high productivity of the West German economy.

We also need large industries for mass-producing certain goods, energy production, etc., and also for integrating the complex division of labor involved in aeronautics and aerospace. Thus there exists an appropriate and harmonious relationship between large and medium-sized business, which is to be striven for by a competent economic policy.

Achieving this is the goal of the Listian or the "American System." It consists of this: to lead economic activity in a productive direction, with the help of the sovereign might of the state and an arsenal of measures such as credit, tax, tariff, and pricing policy.

It is not sufficient to "encourage" productive investments. The state must also protect the entrepreneur, and above all the productive sector, from the economic "beasts of prey." For who but the state is up to the task of containing the influence of the large cartels, private financiers, speculators, and foreign influence in the economy? Deprived of a sovereign economic policy, a nation has no chance of escaping the manipulation coming from such internal and external centers of power.

We now wish to briefly sketch the basic features of such national economic measures which are urgently necessary for the states of Eastern Europe. For these countries, the cited measures are a question of life and death, and it were very much to be wished that not only these countries, but all those of Europe would start thinking along the lines of these principles.

The first priority is to develop one's own national economy, production, and internal market. This has unquestioned priority over the repayment of debt, and also over the increase of exports.

The highest priority is the development of the productive sector of the economy, that is, agriculture, industry, infrastructure, and construction.

That means first of all, that the sphere of production, consumption, and investment *within* the national economy is to be intensified as much as possible, in a rising spiral of

growth and technological progress. This is one of List's important principles.

The role of tariffs

In order to achieve this, it is important, above all in the first phase, to maintain the existing trade barriers. In other words, no free trade! Without a certain degree of protectionism, no economy can develop. What free trade means, particularly for a developing economy, is certain destruction.

Domestic producers who are in any way working well, must be protected against cheap imports. Above all, the unnecessary import of consumer goods must be controlled by tariff barriers. Imported consumer goods should be made relatively expensive, as against modern durable producer goods which are not produced domestically, which, however, are urgently necessary for the modernizing of the productive sector, and which must therefore be broadly toll-free. These measures, taken to prevent uncontrollable importation of consumer goods and to make possible the development of domestic production, are valid above all for the former satellite countries, but also for the developing sector nations as well.

After the example of the "growth tariffs" of Friedrich List, the tariffs should be gradually phased out as domestic industry develops. Hence, the producers will in the beginning be generously protected, but only temporarily. Permanent backwardness will not be accepted; rather, protection is given on condition that the producing concern use the maneuvering room thus gained for investing in advanced technologies. This was precisely the way in which Germany in the nineteenth century protected its industry against cheap British imports, and eventually became the world leader.

Dirigist tax and credit policy

The development of the internal market shall be guided by a dirigistic tax and credit policy, which favors to the highest degree investment in the productive sector. This is one of the central points of the Listian or the American System. This played the decisive role in the so-called economic miracle in West Germany in the 1950s and '60s. This kind of dirigism has nothing to do with planned economy; it means only, that the state takes the responsibility for the general *direction* of the economy.

Through a sensible organization of tax laws, the following situation must be achieved: The person who wants to invest his or her income or savings in the buildup and modernization of infrastructure, agriculture, or industry, shall pay little or no tax on the income from this investment. This can be achieved by special write-off policies. Whoever, on the other hand, uses his profit only to put it in his pocket, or uses it for his own consumption, pays normal taxes—where, however, naturally, families with children will be favored. Whoever uses his profit for pure speculation, pornography, video game arcades, or sets up similar unnecessary or harm-

ful enterprises, he must pay very high taxes—a principle which is also known as “negative tolerance.”

Credit and financial policy is to be conceived similarly. There must be created sufficient long-term credit at low interest rates, with which the full labor potential of the nation can be unfolded, and long-term investments, for example in fundamental infrastructure, made possible. That is only possible when effective interest rates are 4-5% or less.

The problem is that the interest rates on the free capital market are much higher, especially when there is much speculation going on, as is the case in the capital markets today. Hence, one must establish a two-track system: The state will provide cheap credit for investment in certain categories for improving the productive sector; for all other investments, including in the service sector, people will have to pay the normal interest rates of the capital markets or those of the private banks, even where they are financed out of savings.

Hamiltonian credit creation

The best method of state credit creation goes back to Alexander Hamilton, Treasury secretary of the young United States from 1789-94, who founded the first Bank of the United States. Similar methods were from time to time practiced in other countries, for example in France under Charles de Gaulle. The Hamiltonian method is based upon the capacity of the state, through the issuing of bank notes—paper money—to create new credit. This can lead to good results, but also to bad ones, depending upon *how* the newly produced money is brought into the economy.

If a state prints unlimited amounts of paper money in order to pay current costs, it damages the value of the money and creates a massive inflation. The same happens when a national bank increases the mass of paper money according to the principle of Keynesian multipliers, as a way of financing a cancerously swollen fictitious paper value in a financial system or capital market gone out of control. If, however, the newly produced money is spent such that the production of new material wealth is increased, then the opposite can take effect. If we are careful that each deutschemark, each [Hungarian] forint, or [Polish] zloty, which is added to the mass in circulation, increases the real material production in equal proportion, or even more, then we have preserved the worth of the currency, or even increased it.

That is the secret of so-called Hamiltonian credit creation. The national bank increases the bank notes in existence, but they are rigorously bestowed for specific categories of productive investment in the form of credit with low interest rates. This happens either through direct state credit (for example, in a railway company for increasing the rail network, railway yards, etc.) or through participation in credits which are granted by private banks. Through such participation, “mixed” credits arise which are favorable to all parties: The banker gets his normal interest and a continu-

ously increasing field of activity through secure, productive investments. The borrower enjoys the low interest rates, which are the result of the national bank granting a part of its credit at very low interest. And the nation profits by the fact that the total mass of investment in the productive sector is continuously increased by the participation of the private banks.

The decisive thing is that the use of the money be strictly supervised. If, for example, a building contractor gets credit with state participation, then he must draw checks only for the payment of certain goods and services which are connected to the cited projects. Thus, the mass of added money which flows into the economy is governed by the demand for credit for new, modernized or expanded production capacity.

With this method, in the young U.S.A., which after the War of Independence was still very much in debt, Hamilton set into motion an economic boom. The Hamiltonian method is especially appropriate where unused or underused productive capacities and manpower exists, which can be put into motion by new credit provisions. This applies especially to the former socialist countries of Eastern Europe and the new German states. One must only ensure that the technological level—and therewith the general productivity—grow fast enough, in order to create an appropriate growth of material wealth. In this way, Hamiltonian credit creation is *deflationary*.

A similar method is valid for direct state investment, for example in basic infrastructure such as city building, road construction, waterworks, etc. Here the investments will be “paid back” by increased tax revenues under the assumption that the projects lead to a corresponding growth of the economy in general.

Debt reorganization

The principles of Hamiltonian credit creation shall also be carried through on the scale of Europe as a whole, in that the European Monetary Fund (EMF) will be correspondingly further developed. A central institution were necessary, in order to coordinate this credit creation with national banks. LaRouche proposed precisely this within the framework of the Productive Triangle and in the context of a reconstruction program for the former CMEA states. With the help of such an institution, the financing of new infrastructure could be organized in an especially favorable way.

In this connection, there also exist favorable conditions for solving the debt problem of the overly indebted countries in Central and Eastern Europe. By the procedure through which Hamilton made the debt-laden young U.S.A. credit-worthy, one might today proceed in the following way. The indebted countries “pay” their lenders with new certificates or low-interest notes which are rediscounted by the cited central institution, of course with a substantial discount. The sums will only be granted for investment in specific productive concerns.

Parity price

I should like in closing to mention a last aspect of the classical system: pricing policy. The unhindered access to all possible goods and services through a functioning market is an essential premise for the development of the productive powers of a nation. But an entirely free, unregulated market can also be dangerous—like a wild beast, which gets out of control. Above all, what must be prevented is, that by accident, or deliberate manipulation by speculators, the productive basis of the economy be damaged. Above all, the sale of important goods for any length of time at costs lower than production, must not be permitted.

For example, today, through the manipulation of the American food cartels, wheat prices are held artificially low, with the result that millions of farmers throughout the world are going bankrupt. This is only possible because the American government has given up its traditional policy. In the past, the principle upheld was the “parity price,” according to which the state should see to it that the prices which were received by the farmer for most important foodstuffs would at least cover production costs and a reasonable income for the farmer and his family. Hence, prices are supported by the state, in case of low prices, itself buying a part of production. The joint agricultural policy of the European Community based itself originally upon a similar principle, and that was the reason for such a dramatic rise in agricultural productivity in Western Europe after the Second World War.

Another example: Up until 10 years ago, the tariffs for many kinds of transportation in the U.S.A., including passenger flight, were regulated by the state, and again according to the principle of parity price. That is how low, but also how excessively high prices were avoided. There was thus not a fully free market, which so many people in America today are preaching.

When the formerly socialist countries get rid of the fictitious prices of the old system, that does not have to lead to arbitrary price fluctuation. The state has a responsibility to ensure that the fluctuation of prices of the most important goods and services remain within reasonable bounds.

That gives a sample of the classical economic system. We should like to underscore, that the revival of this system is tied inextricably to LaRouche’s concept of the Productive Triangle. Thus did List, in his time, speak of “Siamese twins”: his customs union and his plan for a German railway system. At that time, as today, everything depends on whether we set a process into motion which drives ahead with the necessary speed the development of productive powers, with a resulting increase of the intellectual capacity of the population.

Provided that the countries of Europe direct their internal economic policy according to the fundamental principles of List or the American System, the buildup of infrastructure will, in correspondence with the program for the Productive Triangle, lead to an economic miracle.

Conference Report

Upheaval in former communist bloc

by Gabriele Liebig and Rosa Tennenbaum

Among the high points of the Berlin conference of the Schiller Institute on “Infrastructure for a Free Europe” were the panel discussions in which representatives from Eastern Europe and the Soviet Union reported on the political and economic situation, discussed reform and the perspective for the “Productive Triangle” in their countries, and debated how to solve the crisis in East European agriculture.

Eastern Europe at a crossroads

The panelists from Hungary, Czechoslovakia, Croatia, and Poland reported on the process of reconstruction and privatization in the no-man’s land between the still existing communist power structures and the destructive onslaught of Western financial institutions. Between the representatives of Lithuania, Latvia, and Armenia on the one side, and a former Soviet diplomat on the other, quite a sharp debate broke out over the independence struggle of the Baltic states and the factional battle in the Russian Federation itself.

Prof. Alfredas Smaylis, cardiologist and member of the presidium of the Lithuanian independence movement Sajudis, spoke first. “Of all European states, only the Baltic states are still imprisoned in a Soviet gulag,” he said, appealing to Germany to support the independence of the Lithuanians.

Visvaldis Brinkmanis, acting chairman of the Latvian Citizens’ Congress, warned that billions of German marks in credits and contributions to the Soviet Union may simply “breathe new life” into the Soviet empire. He also expressed great skepticism as to whether the Soviets should even be allowed to stay in the “common European house.” Concerning privatization in Latvia, Brinkmanis recalled the argument that all large firms are the property of the Soviet Union. In truth, he said, the only thing that belongs to the Soviets in Latvia is “the building of the former Soviet Embassy.” The property of Latvia must be “protected not only against the reach of the Soviet ruble from Russia, but also against the drug dollars from the West,” Brinkmanis said.

Mechak Gabrielian, deputy of the National Independence Party in the Armenian Parliament, spoke next, on the topic of the “slave’s fate of the Armenian enclave Nagorno-Karabakh,” which, he said, serves as a “testing ground for Soviet military technology” and “suffers worse than Afghani-