

Zepp-LaRouche: A moral basis for grand strategy

This speech was delivered by Helga Zepp-LaRouche, founder of the Schiller Institute, to the institute's conference in Berlin on Nov. 22. The conference drew more than 300 people from 31 nations, to address the issues of world peace, national sovereignty, economic recovery, and Lyndon LaRouche's plan for a "Productive Triangle" of high-technology development in Europe. Mrs. LaRouche's speech has been translated from the German.

The world finds itself at this time in extraordinary danger. We are living through the second war this year, and it is hard to decide which is more frightful: the unimaginable brutality with which the defenseless civilian population of Croatia has been treated, or the gruesome moral indifference with which Europe has reacted to this war.

It is today more clear than ever, that a change in politics on a global scale is necessary, if there is not to be an explosion of more regional hot spots which will lead, sooner or later, to a world conflagration. It is the aim of this conference to discuss this concept and to help unify those forces upon whose intervention a change in policy will depend.

Concretely, what is at issue is the following: the perspective for a joint Eurasian infrastructure program and the so-called Paris-Berlin-Vienna Productive Triangle, as a locomotive for the world economy to link up with the beginning of a True Fourth Development Decade for the nations of the developing sector. It is much more than just building a few railroads; it is a question of a program for the reconstruction of the world economy, which finds itself—with the exception of a very few countries—in a deep depression. If we wish to prevent a new world war from developing out of this depression, then we must implement, beforehand, the reconstruction that last time was not put into motion until after the war—and do so as an active war-avoidance strategy.

We must defeat the depression, for it is the depression that exacerbates all the historic, ethnic, and social problems,

as is made clear by the case of the former Yugoslavia. What would happen to world peace, if the war in the former Yugoslavia were to spread to become a general Balkan war? And what if, at the same time, the so-called peace conference in the Near East fails, and a war breaks out in the Near East, added to a Balkan war, and on top of that, the Caucasus explodes? The worldwide spread of guerrilla wars would not be stoppable, and a full-scale war, in spite of the Soviet Union's having been dissolved, would not be excluded.

Black Africa is being depopulated by hunger and epidemics, especially by AIDS, because people's immune systems have been weakened by undernourishment. Not very much different is the destiny of the greater part of Asia and Latin America. Do we really think that we can look with indifference upon the holocaust of entire continents in the southern hemisphere, without this catastrophe's redounding upon us? There are already today, in certain parts of New York and other large American cities, levels of poverty comparable to that of the so-called Third World, HIV infection rates of up to 25%, and new epidemics breaking out, such as a new kind of tuberculosis.

Do we in western Europe really think that we might be an island of happiness, and build a wall around our standard of living, while, more and more, we take from the rest of the world, by "shock therapy," by the Polish model and conditionalities, their means of subsistence?

No, I venture to predict that a continuation of the current monetary policy of the International Monetary Fund, of the World Bank, and GATT toward the developing countries, and the states of eastern Europe, will lead to a destruction of mankind without precedent in history, and we shall have to deal not with hundreds of thousands of refugees, but with hundreds of millions. And if anyone believes that the problem of refugees might be solved with military means, like in the Bari case [where Italian Foreign Minister Gianni DeMichelis sent Albanian refugees back to Albania at gunpoint—

ed.], he or she had better realize that this should mean the moral bankruptcy of our western civilization.

The tide has begun to turn

No one any longer doubts the bankruptcy of the communist economic system. The truth, however, is that the Anglo-American system, the so-called free-market economy, is no less bankrupt, nor is there any way to hold it together. Debt crises, budget deficits, savings and loan and banking crises, real estate collapse, decline of industrial production—these are the characteristics of the depression in the United States. Even if it turns out to be possible to mitigate the effects of the Nov. 15 stock market collapse on Wall Street, by using all kinds of computer tricks, still the market insiders are all agreed that the American economy and financial system will continue their slide downward in the coming months.

In the meantime, George Bush, fearing for his re-election chances, is trying to erase the impression that he might have gotten into a panic, which even prodded the conservative *Neue Zürcher Zeitung* to comment that Bush seems to be acting like a chicken without a head, and that his presidency reminds one of Jimmy Carter's. Indeed, the tide has begun to turn.

Only when one keeps in mind the arrogance of power, is it possible to understand how the financial interests behind the IMF, World Bank, and GATT can keep on thinking, in the face of the desolate situation in the world economy, the depression in the Anglo-American domain, the imminent collapse of the financial markets, that they are the gods of Olympus and are in control of "the game," as they call it.

But there is a higher power and a higher authority, which will assert itself, which can only be recognized on the level of reason and not on the level of greed. It is just not possible to keep destroying the basis for the subsistence of many millions of people, in the process breaking the laws of the universe, and expect that this will not redound upon those breaking the law.

A return to 'physical economy'

The Bretton Woods system, which from the beginning was based on neocolonialism and usury, is bankrupt, and must be replaced by a new economic and financial system.

What we propose, therefore, is a return to the economic system that has always been the basis, anywhere in the world, whenever there has occurred a successful industrial revolution, or a victory over an economic crisis. This is the system of physical economy, as developed by Leibniz through Colbert, the Cameralists, Alexander Hamilton, Friedrich List, and Abraham Lincoln—what List called the "American System." It is the concept of dirigism oriented to real production, where the state provides the framework which takes as its first premise the need for developing a productive *Mittelstand* [small and medium entrepreneurs] in industry and farming.

We propose a joint Eurasian integrated infrastructure pro-



Helga Zepp-LaRouche speaks with South Carolina State Sen. Theo Mitchell, at the Schiller Institute's conference in Berlin.

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gram, starting with the Paris-Berlin-Vienna Productive Triangle, which will be connected through high-speed rail systems, and which comprises the region of the world where, on the basis of readily available industrial and labor-power capacity, the most rapid rates of growth are possible, and hence will have a locomotive effect upon the world economy. From the Productive Triangle will proceed development corridors from Berlin through Warsaw, the Baltics, St. Petersburg; another through Moscow to the east; another through Kiev up to North, South, and Southwest Asia. At the same time, we shall begin the infrastructural projects now on the drawing boards for Africa, the Near and Middle East, and Latin America.

The coming winter in Russia

Over the last few weeks, in the face of the immediately threatening winter of starvation in the Russian Federation, the argument has often been put forward, that we should first concern ourselves with the short-term problem, and get through this winter, and then turn to the admittedly wonderful ideas of the infrastructure program, important for the medium term. In that argument is expressed a lack of understanding of the function of infrastructure. Without the development of infrastructure, there will be absolutely no economic or agricultural development.

When one considers the collapse of the Soviet system, it becomes clear that this collapse essentially occurred for lack of infrastructure. It was admittedly also a failure in production, but more important was the lack of efficient infrastructure, the so-called bottlenecks. Infrastructural investment is

hence not merely one possible investment to make among many; rather, it is the absolutely necessary precondition, without which all other investment will not work.

If this infrastructure program is conceived as a joint European project, then through this perspective of joint economic development, a level of reason is established, which is necessary for political stabilization. If all the nations involved, and all the ethnic groups, have a justified hope for the speedy improvement of their standard of living, then that creates a common interest, and provides the basis for overcoming the

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existing conflicts.

To achieve such a program, a supranational government is not necessary, i.e., something similar to the former Soviet Union; what is necessary, is cooperation among sovereign states, which in the meantime will have sovereign monetary systems. The governments of these sovereign states will regulate among one another each one's essential portion of financing for the project.

It is precisely under such conditions as the present world depression, that it is proven that one of the two existing methods for financial credit creation will not work, namely the Keynesian mechanism for creating credit by means of a private banking system. Some countries are tottering on the brink of inflationary collapse, others on the edge of the abyss of global, deflationary credit contraction. Thus, for the first time this century, as reported in a just-published study by the Bank for International Settlements, the amount of international credit granted shrank in two successive quarters, by the considerable sum of \$219 billion. In the second quarter, credit granted to eastern Europe and the former Soviet Union declined by \$3.1 billion.

The American System

The best method by far, which was once known as "the American System," is based upon the creation of new money by the issuance of Treasury notes, or notes issued by the national bank. This creation of new credit by the national bank's issuance of Treasury notes, is not understood today by most people. The automatic reaction is: "But isn't that inflationary!"

The new notes, however, shall not be issued as current federal debt, but rather as a capital account. The new Treasury notes shall come into circulation via channels in the national bank, for example, in making loans to local private banks for investment in real goods production and productive capital outlays, in this case, to all the firms and enterprises involved in all the parts of the infrastructure program.

The mass of credit creation, which gets into circulation through such channels, is subject to the following criteria. It is limited by the demand for credit for new productive capacity, technological improvement, the unblocking of the flow of industrial capital, and the needs of the creditworthy borrower. Every increase of new credit creation replenishes the capital of the private banks, which also participate in making the loans. New credit only comes into circulation, when real wealth is newly produced, which gives security for this extension of credit. The real wealth, which originates at the hands of the creditworthy entrepreneur, thus provides the security for the loans.

Hence, this form of credit creation is not inflationary. On the contrary, two essential cost factors are removed, namely, the costs for supporting the unemployed and the costs arising from the lack of infrastructure, which are enormous. In the former Soviet Union, simply because of lack of agricultural infrastructure, 40% of the harvest was lost.

The credits would also be exclusively for the productive domain, with the aim of increasing the number of people productively employed and the productivity of transportation, energy production, industry, construction, and agriculture. The marginal value of obsolescent productive capacity is not destroyed, as with "shock therapy"; rather it must continue to be used, generating new finance capital that can be invested in modern replacement technologies. With that, it is possible, if necessary, to utilize some multilateral barter arrangements, which will be balanced by the state over a period of time, from two to three years, and thus essentially already becomes a new monetary system.

It can also be pointed out, that the local tax revenues were always higher than the credit originally provided for infrastructure, because of the general effect of cranking up the economy. If the center of gravity of credit creation lies in the domain of scientific and technological progress, then its effect, by means of corresponding increases in national productivity, is deflationary.

Relative potential population density

To determine whether a new technology works or not to increase productivity, there is one clearly measurable parameter. It arises out of LaRouche's concept of relative potential population density. If we order the various agricultural and industrial modes of production in history, according to their possible population density, then the first parameter for economic development and growth is the increase of per capita energy throughput. A second parameter is the energy flux

density of the applied energy sources. The relationship between effective energy and total energy throughput is then the essential factor.

Through continuous technological progress and the concomitant better mastery of the lawfulness of the universe, the energy throughput of the economy increases in an increasing energy flux density, and an increasing energy quotient. This process must be in principle negentropic, and that is how a new technology must be measured.

The emphasis must thus be precisely the opposite of that propounded by the representatives of the so-called free-market economy, who reduce energy throughput, and decrease the so-called expensive jobs in favor of building up cheap production in the developing countries or eastern Europe.

Lessons of the Great Depression

But how is this program to be pushed through? Have we learned anything from the Great Depression of the 1930s, and the consequent World War II, or not? Will we allow the collapse of the Bretton Woods system to lead from depression to world war, as was the case for the Versailles system, or will we realize the existing alternative in time?

The chief characteristic of the Versailles system was the indebtedness toward the United States of the Allies, above all Great Britain and France, for which the reparation payments of Germany were the guarantee. The absurdity of this system lay in the fact that the level of payments was so calculated, that Germany could never produce enough to make them.

Since in any case between 1919 and 1922 about 10% of the income of the population was allocated for reparations, either in money or in kind, the government was not in a position to skim off still a higher portion of personal income with a tax considered unjust by the population. When Hilferding then sought, in 1922-23, to bridge the discrepancy between reparation payments and government costs, with the help of running the money-printing presses, hyperinflation resulted. The creation of money was done for a completely different aim, not with a look forward to future production, but rather to cover current costs.

The Versailles Treaty took as a premise that Germany alone bore the guilt for World War I. What was the real dynamic that brought about world war? Why did the England of King Edward declare war on Germany? Why did the U.S.A. enter the war on the side of England?

In essence, the reason lay in England's fear that the Eurasian development perspective—as expressed, among other things, by the railway project from Paris to Vladivostok—might become a dominating tendency. They feared that the cooperation between the France of Hanotaux, Germany industry, and the Russia of Count Witte (whose thinking was in the tradition of Friedrich List), might lead to an agro-industrial bloc in the northern part of the "Eurasian heartland," that this would continue to grow economically, and

would finally come to dominate the entire world.

England was terrorized by the thought that this would signify the end of the British system of usury, which was the trademark of the British imperial system, whose essence has been sufficiently described by the grandfathers of the free-market economy, such as Adam Smith, but also Hobbes, Locke, and Malthus.

The British Empire represented in its purest form the thinking of the oligarchical faction, which always has seen

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the development of agriculture and industry as the chief threat to their system, because it is premised upon educating the population. If one educates the population, then that is the end of the oligarchical system; that is how they calculated. England had already, at the time of Leibniz, a deep mistrust of "continental science," but the industrial revolution of the 19th century raised this to panic levels.

Had Germany been allowed, after the First World War, to invest capital in agro-industrial development, then it should have been able to manage the reparations payments. But England had waged the war precisely to stop scientific and technological progress in Germany, and hence was not about to allow it after the war. The Versailles system—based upon an early sort of Morgenthau plan for Germany, a policy of deindustrialization—on the one hand destroyed the capacity to pay the debt, while at the same time demanding gigantic sums, and hence, in the final analysis, this Versailles system was based upon a mythology.

On the American side, the establishment of the Federal Reserve System, clearly contrary to the American Constitution, meant that the Americans had swallowed the British monetarist influence that had begun to penetrate the United States with the Specie Resumption Act of 1870. The Constitution says in Article 1, Section 8, Paragraph 5: "The Congress shall have the power to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights

and measures.” The Specie Resumption Act, comparable to the Gramm-Rudman amendment, forced the U.S.A. to provide gold backing for its currency. Since England had a monopoly on monetary gold, the American currency could be manipulated by the Bank of England. Even though there was expansion of agriculture and industry in the United States in the last quarter of the 19th and the beginning of the 20th century, the country still found itself, because of the looting process set into motion by the Specie Resumption Act, in an uninterrupted social crisis.

Since Teddy Roosevelt, anti-German, pro-British influence won the day, and the American economy was allowed to expand by means of the Federal Reserve System during the First World War, in order to be able to help England and France against Germany. Instead of maintaining this expansion at the end of the First World War, the United States switched to a policy of contraction, which then promptly brought about the Great Depression of the postwar period.

There still was, during the 1920s, some speculative growth, and some income gained from that—a kind of 1920s “yuppie” phenomenon—but in 1924-26, the contraction process began in earnest in the United States at the same time as in Germany, so that all that was accumulated was a great mass of speculative titles, based on debts which, under these circumstances, could never be repaid.

And then Brüning’s deflationary policies were a kind of “shock therapy” for the beleaguered German economy. This was done just at a point when the collapsing world markets meant hardly any market at all for the export of German goods, from whose sale the debts might have been paid. The emergency measures encouraged by foreign bankers were supposed to, by shrinking total national income, by decreasing wages, decreasing social expenditures, and levying crisis taxes, eke out the margin necessary to maintain debt payments.

Now there is a debate in the literature about the Great

Depression in the 1930s: Did Brüning have some room to maneuver, or was he completely hemmed in? Thus K. Borchart writes: “All in all, we have here a fundamental question: Did those governing the country really lack insight, were they so inept that they must bear the burden of guilt for the terrible things that happened, or were there not still other reasons, which we must attribute to the objective world, not at the time under the control of the government?”

If that had been the case, writes Carl Ludwig Holtfrerich, then the government and politicians were merely “the *front men* for specific policies determined by other social forces, and they merely had the choice of adapting their own political program to the purpose set by those other social forces, whoever they might be—associations, parties, economic forces, etc.—and with that, gain a chance for improving their position, or maintaining their position; or publicly representing their own political convictions, even contrary to the dominant social forces, with the consequence of being kept out of, or being removed from, power.”

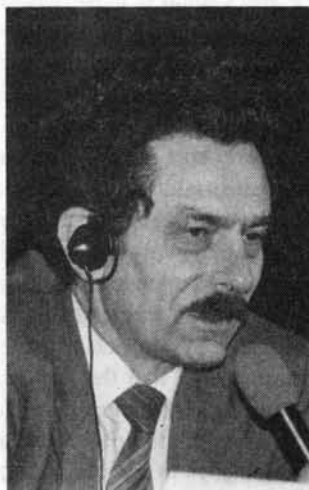
The fact is, that at the time, because of the still fresh memory of the great inflation of 1923, there was a mistrust of any policy that would increase credit. However, it would have been a simple matter to explain the fundamental difference between the creation of credit for the purpose of paying debt and covering current expenses of the government—hence inflationary—and the creation of money oriented to future production, and hence covered by a corresponding real wealth.

Only after the bank crisis of July 1931, did economic alternatives to Brüning’s deflationary policy play any role. Holtfrerich concludes that Brüning too might have been able to garner the political support for these alternatives, had he put in the same amount of political energy as he expended on promoting his deflationary policy.

Among these alternatives, was a proposal by Ernst Wa-



Gen. Paul-Albert Scherer
(ret.)



Prof. Dr. S. Ryabchenko
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gemann, then president of the Government Statistics Bureau; one by the secretary of state, Hans Schaeffer; and one by the industrialist, Drager; all of which—though in watered-down form—belong in the tradition of List and the American System.

But Brüning wished to reduce social expenditures, and thus found Ernst Wagemann's plan inconvenient. He complained that he had the greatest difficulties with the reform of social security, from the time it had come into existence. This threatened the direction in which his policies tended, and this direction was to strive for "reducing the cost of production for the producer"—which in a fatal way reminds us of a certain economics minister who today speaks of axing "expensive jobs."

Too late, this debate brought things to the point that a change was made in financial policy and money was made available, which led to the initial successes of the Nazis. No thanks to them, however, but to the men cited above, who had copied aspects of the American System, the idea of financing, by means of state credit, the way out of the depression.

So I close with the words of Holtfrerich: "It is thus a question of learning from experience. Wisdom after the fact may be cheap, but it is a lot better than persisting in error. The dumbest thing, surely, is to purposely forget what one has experienced."

If, instead of this, we return to tried and tested concepts, which have always lain at the basis of economic prosperity, and we respect the justified aspirations of the people of the East and the South for a life to be lived in dignity worthy of human beings, then a reorganization of the bankrupt, beyond-rescue Bretton Woods system, will be relatively simple.

It is my deepest conviction that we might only overcome this world crisis, if we bring the economic order into harmony with mankind's inalienable rights, ours by natural law, everywhere in the world.

Speakers at the Berlin conference

The following people spoke at the Schiller Institute's conference, Nov. 22-23. Affiliations are for identification purposes only.

Dr. Kofi N. Awoonor, chairman, Group of 77; ambassador of Ghana to the U.N. (unable to attend personally, sent a message that was read at the conference). Full text in *EIR*, Dec. 6.

Hike Babookhanyan, Union of Constitutional Rights of Armenia, "Armenia needs the creation of new, just orders in the world."

Dr. Eva-Maria Barki, board member, Austrian-Croatian Society, Vienna, Austria, spoke on the genocide that is being committed against the people of Croatia.

Prof. Dr. V. Beletsky, director, Sovintercontact, Moscow, Russia, "Russia faces a hunger emergency."

Carlos Calderón Carvajal, Member of Congress, Lima, Peru, "Peru must fight to resist the IMF's 'savage capitalism.'" Full text in *EIR*, Dec. 13, 1991.

Sandor Cseh, Member of Parliament, Budapest, Hungary, "If we can solve our economic problems, we can achieve peace."

William Engdahl, European economics editor, *EIR*, Germany, "The illusions of 'free-market' magic."

Prof. Dr. A. Filipenko, Economics Department, University of Kiev, Ukraine, "Economic unity of the world on the eve of the third millennium."

Dr. Marian Gruchelski, economic adviser, Farmer Solidarity, Warsaw, Poland, "Polish shock therapy does not



Guntis Vilcans



Ni Yuxian



Dr. Eva-Maria Barki



Dr. T. Nikolov