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## Physical Economy Discussed In Ukraine

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# Let us begin organizing the economic recovery of Eurasia

by Lyndon H. LaRouche, Jr.

*The following speech by Mr. LaRouche was written on Nov. 17, 1994, and read for him at a conference in Kiev, Ukraine which took place on Dec. 1-4.*

Let me begin by reciting a fact known to us all: *A symptom is not the cause of the disease it expresses.* The present problems of the economy of Ukraine are chiefly a symptom of the fact that the entire world is presently in the grip of a worldwide economic depression. To be precise, a tired and decadent, International Monetary Fund-dominated, global financial system has entered into its collapse-phase. Under these circumstances, the only satisfactory economic policy is a combined set of policy-guidelines and key projects designed to bring about a recovery from the imminent disintegration of the IMF system.

Just as the effects of any epidemic vary somewhat from victim to victim, the recent history of Ukraine affects the way in which the disease expresses itself here, but the underlying sickness is a worldwide epidemic with international causes.

My remarks here are limited to summarizing three points which define the global crisis within which Ukraine is presently trapped. First, a very brief summary, outlining the ongoing, worldwide breakdown of the IMF system. Second, a very brief summary of policies needed to produce economic recoveries in the national economies which are the victims of this collapse. Third, an outline of the proposed key set of infrastructure-building projects needed to bring Eurasia out of the worst crisis of this century.

### **The breakdown of the IMF system**

Thirty years ago, in the aftermath of the post-missile-crisis nuclear condominium agreements reached among London, Washington, and [Soviet General Secretary Nikita] Khrushchov's Moscow, the powerful, dominant faction of Anglo-American financial capital, led by British Prince Philip's World Wildlife Fund [now the World Wide Fund for Nature], decided to bring to a close the era of reliance upon investment in scientific and technological progress.

Consequently, during the interval 1964-65, there was a transition to what was often called a "post-industrial" utopia. Over the interval from November 1967 through the London-directed 1973-74 oil-price hoax, and the 1975 Rambouillet monetary conference, the world's monetary and financial system was decoupled from its traditional inter-dependency with the levels of physical output and productivity of labor. Then, beginning with U.S. Federal Reserve Chairman Paul A. Volcker's 1979 introduction of policies which he called the "controlled disintegration of the economy," the world's economically decoupled monetary and financial systems were transformed into a hyperbolic bubble of purely parasitical financial speculation, typified in the extreme, today, in the operations of George Soros's Quantum Fund.

Through the dominant role of the IMF and related institutions, the bulk of the trade and finance of the entire world has been drawn into this bubble of speculation. This global system has now entered the end-phase of its collapse. The collapse itself is already in progress. When the collapse will be completed is still uncertain: It could be a matter of weeks, more probably of months. I am certain that, whether through the alternative of a rational bankruptcy proceeding, or the irrational disintegration of the financial system, the end is now rapidly approaching.

### **Only two possibilities**

There are only two economic possibilities for each and every part of the world today. The best possibility, is that leading governments use their sovereign political power to put the global system of both monetary and financial institutions into financial bankruptcy. If the governments lack the intelligence or courage to put the existing global system into bankruptcy, the inevitable and early result will be the disintegration of the system brought about through the kind of chain-reaction which can be described fairly by the famous equations for chemical explosions.

In the latter alternative, the result will be chaos, the descent of the entire planet into a dark age worse than that

## Kiev conference seeks alternative to shock therapy

On Dec. 1-4, 1994, a conference, entitled "Social and Economic Problems of Ukraine as a Transitional Society," was held on behalf of and under the auspices of the Supreme Rada (parliament) of Ukraine. Assistance in organizing the conference was provided by the Ukrainian Association of Socio-Economic Development, Management, and Prognosis; the International Center for Policy Studies; the National Academy of Management; the Olzhych Research Foundation; and the Council of Advisers to the parliament of Ukraine.

In addition to a representative of American economist Lyndon LaRouche, representatives of the European Commission, the International Labor Organization in Geneva, the United Nations, the Eastern Europe Institute in Munich, and the World Bank were invited to the conference. Also in attendance were economists from France, Britain, Denmark, Poland, Germany, Italy, and Russia.

The conference took place a few weeks after President Leonid Kuchma and the Ukrainian government began implementing a new round of International Monetary Fund (IMF)-dictated economic shock therapy measures—similar to those that have already failed in Russia. The parliament, under President Olexander Moroz, organized the conference in hopes that it would provide a counterpoint

to the shock therapy policies.

Even without the imposition of the latest measures, Ukraine already is suffering a deep economic depression. Hyperinflation, deindustrialization, increasing poverty (especially in the countryside), a rising death rate, and epidemics such as cholera and diphtheria characterize the crisis. Deregulation, privatization, and price liberalization (i.e., price increases) will lead the country into further catastrophe, although the government thinks that it is more clever than the Russians, and that it can avoid the results of shock therapy which occurred there.

### Two relevant presentations

The conference was addressed by the head of parliament, Economic Minister Roman Shpek, and head of the State Property Fund Yuriy Yekhanurov, who is in charge of privatization. The latter two speakers gave an ideological defense of IMF conditionalities. Most of the western economists were only moderately critical of the IMF, and were unable to offer a solution to the crisis.

However, Prof. Taras Muranivsky, from the State Humanitarian University in Moscow, and a speech by American economist Lyndon LaRouche, delivered to the conference by a representative of the Schiller Institute, put forward workable alternatives to the IMF policies. Muranivsky spoke about the Russian experience with shock therapy, and the methods of physical economy that are needed in order to get a solution to the crisis, through a program for reconstruction of infrastructure, industry, and the high-technology sector.

which Europe suffered following the chain-reaction collapse of the Lombard debt-bubble during the middle of the 14th century.

However, if the United States and a few other leading nations react in a sane and courageous way, and put the bankers and speculators into forced bankruptcy reorganization, a general, worldwide economic recovery can be organized immediately. Under those more rational political conditions, an accelerating general economic recovery of Ukraine, and other nations, could be launched. If we take the view that such an alternative to chaos will be forthcoming, then we can take certain immediate steps now which prepare the way for that kind of general economic recovery.

I focus now upon that policy perspective.

### Recovery as a renaissance

A few historical facts about the modern western european economy point to the kind of recovery measures which will be successful under present world conditions.

It is useful to describe the global economic collapse now in progress as the end of a centuries-long dynasty of modern european civilization, what had been the most powerful civilization which ever existed up until the present moment. It must be our purpose to discover what was right, and what was wrong in that western european dynasty which came to dominate this planet. What was the source of that civilization's great power; what were the causes of its presently ongoing collapse. From this vantage-point, an economic recovery is to be seen as an economic renaissance, a revival of the good principles of european civilization, but minus the foolish principles which have brought about the collapse.

For example, prior to A.D. 1440, the population of this planet never exceeded several hundred million persons. The level of productive technology reached prior to the 15th-century Renaissance did not permit the human species to reach the potential population density needed to rise above a few hundred million. More than 90% of the human population of all cultures lived in a condition which may be fairly



*Independence Square in Kiev. "The present problems of the economy of Ukraine are chiefly a symptom of the fact that the entire world is presently in the grip of a worldwide economic depression."*

described as brutish misery, that of serfs or slaves. The source of the power which enabled the culture of western Europe to achieve world domination were three revolutionary changes in political institutions which were introduced approximately the middle of the 15th century: the idea of the modern nation-state republic, the principle of generalized scientific progress, and the general commitment to investing in the fruits of scientific and technological progress for the increase of the productive powers of mankind per capita, per household, and per square kilometer of land-area.

The trouble has been, the stubborn persistence of those feudal traditions of oligarchism and usury which, unfortunately, came to dominate the political and financial institutions and policies of the most powerful states within the orbit of western european culture. It is the triumph of usurious financial speculation over technological progress in both basic economic infrastructure and physical production, which is the specific cause for the presently ongoing doom of the existing global monetary and financial systems.

We see that, since 1989, the levels of output in the former Comecon sector have fallen to less than 30% of their levels under the former communist regimes. The specific cause for this collapse has been the policies of reform which were imposed upon the former Comecon sector, first by Britain's Prime Minister Margaret Thatcher, U.S. President George Bush, and the International Monetary Fund. These

states received from Thatcher, Bush, and the IMF all of the bad features of a dying western european civilization, and virtually none of the advantages.

One might say that the peoples of eastern Europe spent decades traversing the vast desert of socialism, to arrive finally at the gates of a powerful city. They arrived tired, famished, and thirsty, hoping to find a better, freer life. Instead, they arrived at the time that city, ruled by madmen, was struck by a savage epidemic against which the arriving people had no developed resistance.

In the science of physical economy founded by Gottfried Leibniz, the measure of prosperity is the number of persons who can be sustained with improved health, increased life-expectancy, with greater potential population-density. This accomplishment is made possible by two interdependent means. First, the general application of advances in science and technology to increase the productive powers of labor per capita and per square kilometer. Second, those improvements in land which must be made and sustained to absorb these advances in productive technology.

### **Voluntaristic creativity and the state**

The accomplishment of modern western european civilization was to discover that the realization of improvements in technology was better obtained through utilizing the factor of voluntaristic creativity, under the institution of private

FIGURE 1

### The European 'Productive Triangle' area

*This area of Europe has the highest concentration of productive power in the world. Ensuring proper investment and infrastructure development here is key to boosting productivity and ensuring peak functioning, vital for leading an economic recovery worldwide.*

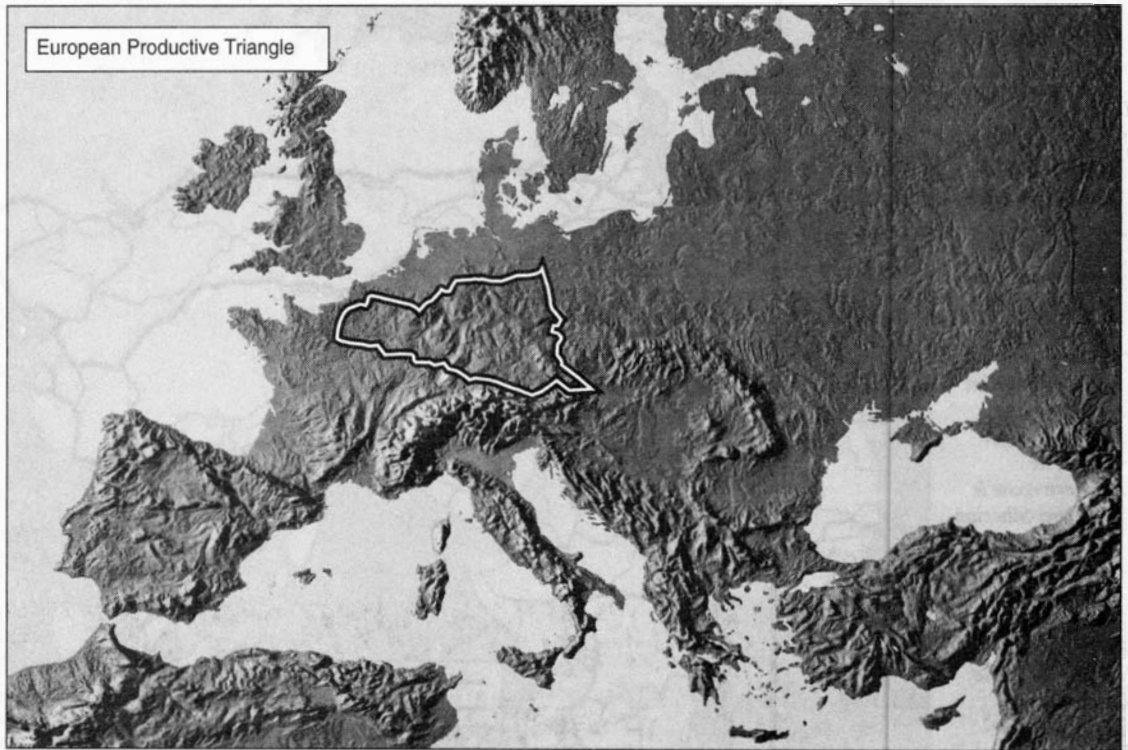


FIGURE 2

### Proposed European 'Productive Triangle' rail development

*The European "Productive Triangle" of high-speed rail lines and intensive infrastructure investment was proposed by LaRouche after the Berlin Wall fell in 1989. It encompasses an area whose vertices are Paris, Berlin, and Vienna. "Spiral arms," or corridors of development, would extend to Scandinavia; eastern Europe, Russia, Ukraine, and farther east to Asia; the Balkans and the Middle East; and to Iberia and North Africa.*

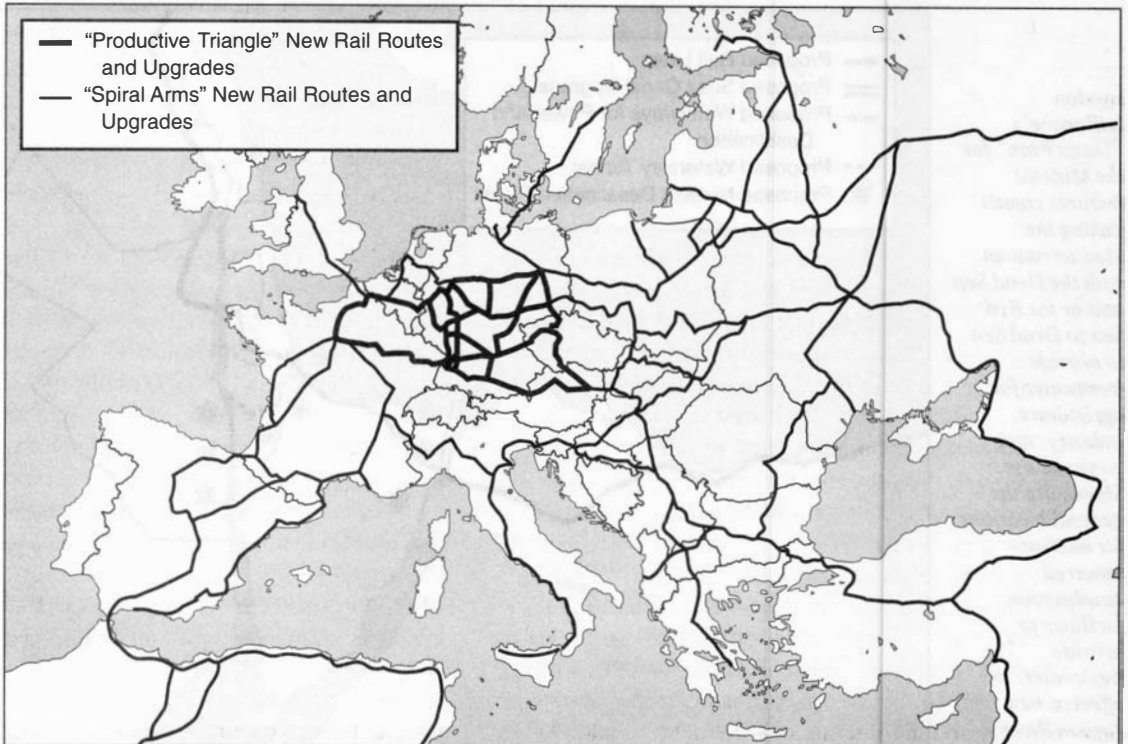


FIGURE 3

**Proposed 'Eurasian land bridge' rail development**

High-speed and maglev rail corridors form the Eurasian land bridge. Rail lines from France to Africa, and to Russia and China, and into Japan, were the 1896 "Great Project" of France's Gabriel Hanotaux and Russia's Sergei Witte. The northern route is the Trans-Siberian line; farther south, the new Silk Road line branches into China and India; the third main trunk goes to the Mideast and Africa.

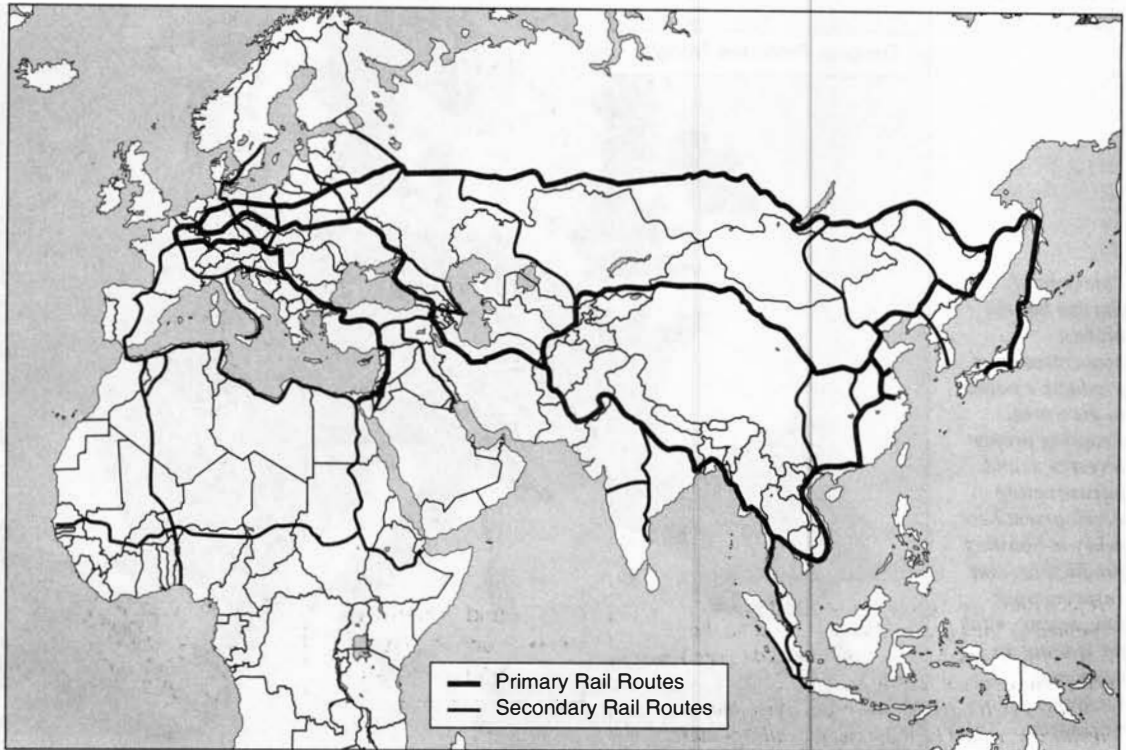


FIGURE 4

**LaRouche's 'Oasis Plan' for development of the Middle East crossroads**

Lyndon LaRouche's "Oasis Plan" for the Mideast features canals linking the Mediterranean with the Dead Sea and/or the Red Sea to Dead Sea to provide freshwater for agriculture, industry, and domestic use. Shown are the general locations for nuclear-powered desalination facilities to provide freshwater; in effect, a new Jordan River.

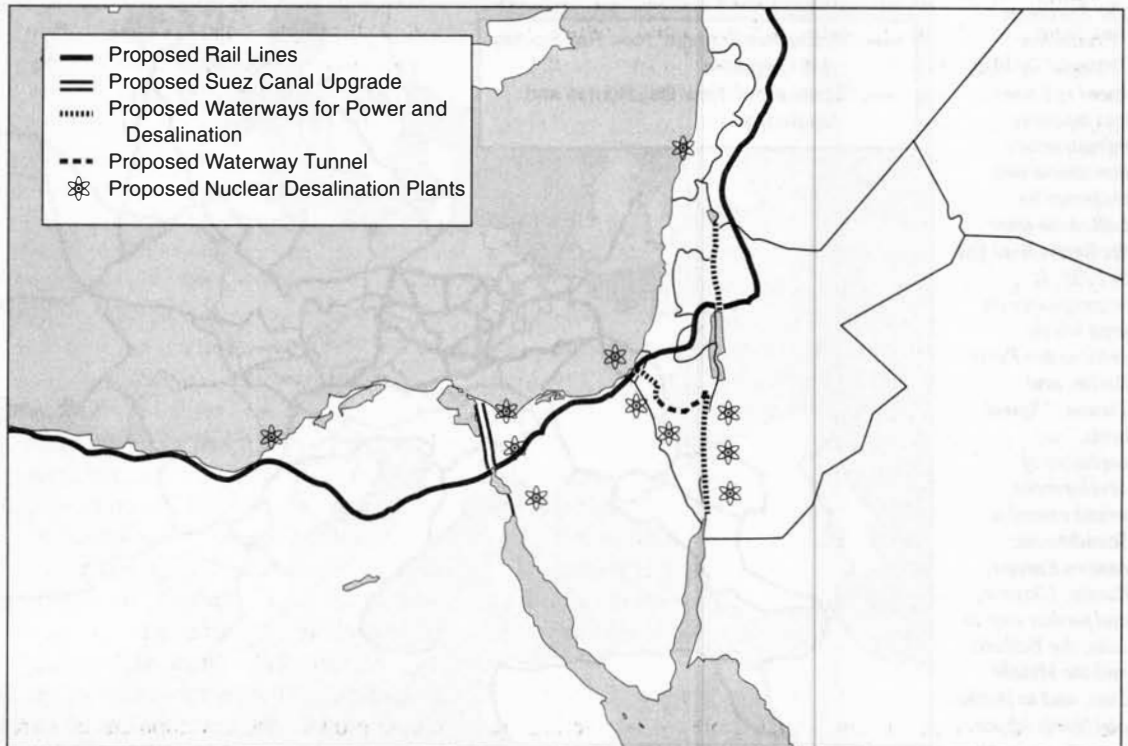
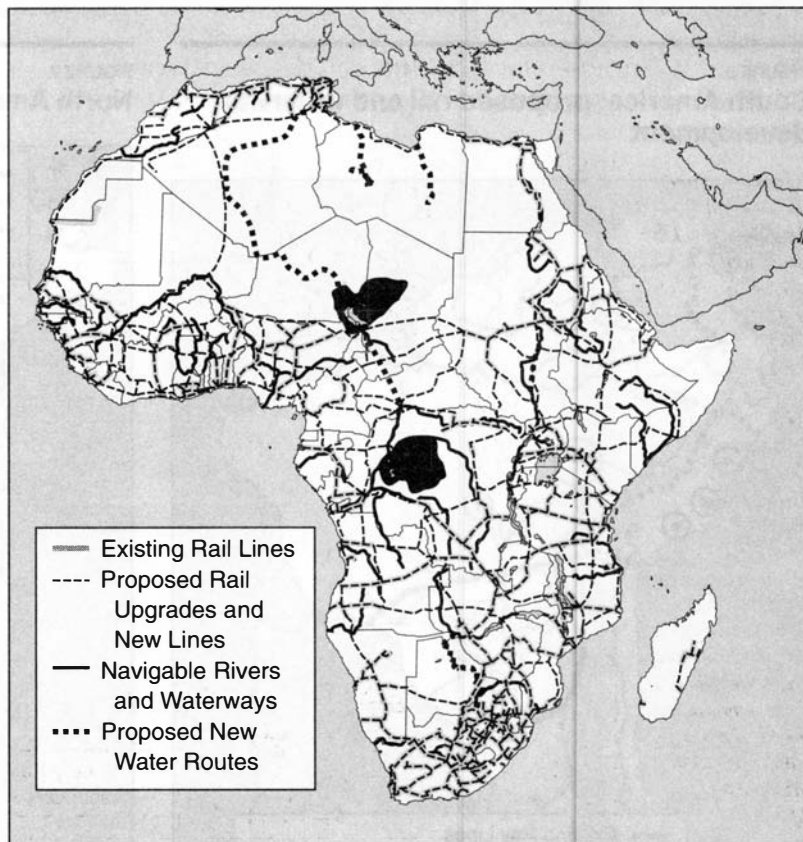


FIGURE 5

**Rail and waterway development for Africa**



*The transcontinental rail and priority water projects show the vast potential for this huge continent. Finishing the Jonglei Canal on the White Nile in southern Sudan could add over 5% to the flow of the Nile. All such projects, combined with nuclear-powered development complexes, would be the basis for billions more people.*

entrepreneurship in agriculture and industry, but, that the potential success of such private entrepreneurship required the state's responsibility for providing and maintaining those necessary improvements in land-area we know as basic economic infrastructure. This was the form of capitalist development we find in the United States of Presidents George Washington and Abraham Lincoln, and the Germany of the Humboldt brothers and Friedrich List.

The most successful growth of industrial capitalism occurred when this division of labor between the state sector of the economy and the entrepreneurial sector was applied. The most efficient mechanisms were as follows. First, the state exerted its responsibility for a monopoly in the creation, issuance, and protection of the national currency. This issuance of currency served as the backbone of the public credit supplied to both the state and private sectors through a national banking system. This primary issuance of new credit was made available to selected classes of responsible borrowers at low borrowing costs. These loans were concentrated in enterprises of the public sector, including credit supplied to contractors participating in those public works of infrastructure-building. That provided the stimulant of growth for the private sector as a whole.

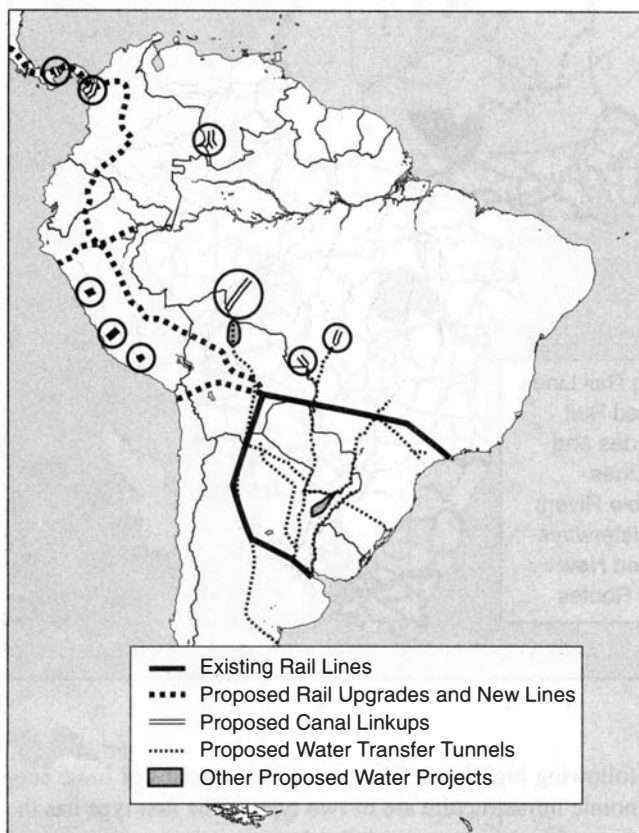
Military expenditures to one side, the role of the public sector of the economy is made intelligible by considering the

following highlights. The essential categories of basic economic infrastructure are of two types. The first type has the form of the improvement of land: water management, general transportation, power, sanitation, and public communications. The second type is represented by those social services indispensable for developing and maintaining the productive powers of labor: education, health care, and science. Both types are primarily the responsibility of the state sector. The level of development of both categories of infrastructure, per household and per square kilometer, is a measure of the potential for realizing the lifting of the productive powers of labor to some specific level.

For example, given any level of productive technology, we can measure the requirements of power and water for agriculture and for industries. Water and rail transport are the cheapest and most efficient modes of medium-range transport of goods, by a large margin of advantage over any other modes of transport. By comparing the maps of power, water, water-transport, rail-transport for various nations today, we are showing the relative economic potential for industries and farms located in the various regions and localities of the maps. There is a similar case for the locations of schools, medical facilities, and centers of scientific research and practice. Thus, in the history of successful cases of economic growth, the development of infrastructure preceded

FIGURE 6

**South America: proposed rail and waterway development**



Existing and proposed water and rail projects include a new interoceanic canal through the Panama Isthmus. The Orinoco-Amazon River canal and the Amazon-Rio de la Plata canal would integrate the three huge river basins, allowing ships to operate over 10,000 kilometers. The dream of the Pan-American Railroad would be completed as a high-speed rail system.

and stimulated the successful development of farms and industries.

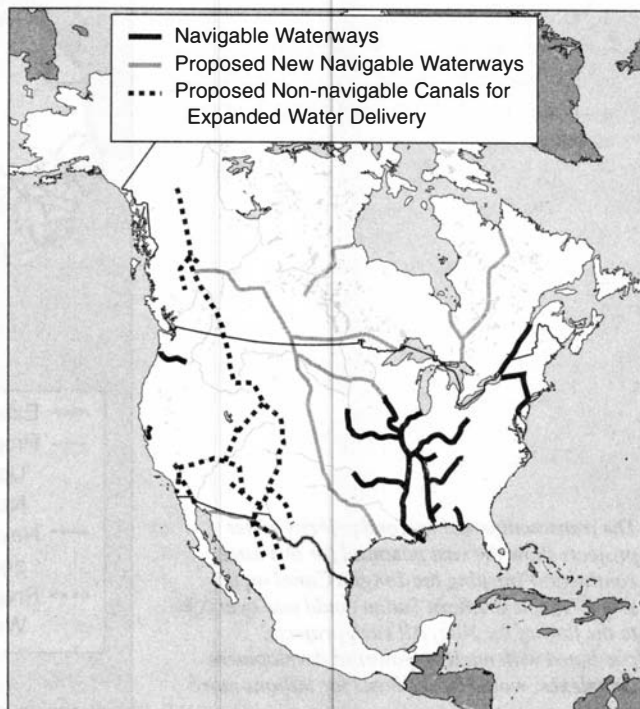
**Economic development programs**

For that reason, over the years, my associates and I have designed a number of large-scale economic-development programs, including that which we proposed in late 1989 and 1990 for the United States, and western European assistance for the rapid development of the economies of the eastern European nations.

Our design for eastern Europe was centered in the part of Europe which has the highest density of infrastructure development, and the highest productivity (Figure 1). This is an approximate spherical triangle which runs from Paris

FIGURE 7

**North America: water development (Nawapa)**



*The North American Water and Power Alliance (Nawapa). This 1960s engineering plan by the Ralph M. Parsons Co. would divert enough unused water now flowing north to the Arctic, southward through a natural and engineered Rocky Mountain Trench, to bring a new supply of 135 billion gallons a day to the Canadian and U.S. plains, the Great Lakes, and Mexico.*

down to Vienna, up to Berlin, and back to Paris by way of the German Ruhr region and Lille. From this “Productive Triangle,” as we have named it, we specified corridors of rail-centered infrastructural development reaching out to the south and east (Figure 2).

Back in 1984, we had already designed and published policy proposals for the development of the land areas bordering the Pacific and Indian oceans. Now, beginning in 1989, our concern was to link the development of the European “Productive Triangle” beyond the Balkans and Russia, through rail links into East and South Asia. It is now clear that others were thinking similarly (Figure 3). Since April 1975, we have been committed to the securing of Arab-Palestinian peace through cooperative economic development of the Middle East (Figure 4). During the 1970s and 1980s, we also worked with relevant institutions in the development of similar proposals for parts of Africa (Figure 5) and the Americas. Here, Figure 6, from a South America project. Here, Figure 7, one sees reflected our modification

of an engineering design for general water and power development plan for North America.

### Government-created credit

In the best possible situation which might exist anywhere in the world a short time ahead, most of the world's central banking systems and financial institutions will be either closed down, or operating under rules of government-supervised financial reorganization. Under such conditions, to speak of an economic recovery which relies upon private lenders for investments, is a very cruel joke to play upon the people of any nation. Only sovereign governments can create the masses of new credit needed to halt a catastrophe.

If that government-created new credit is provided and used in the right way, it will be a noninflationary stimulant for rapid progress through full employment and growth of the private sector in agriculture, industry, and commerce. The foundation of this recovery must be higher priorities for large-scale programs of building up basic economic infrastructure, and issuing necessary credit for payrolls and materials to private entrepreneurs who win contracts to assist in creating those new infrastructure developments.

It is not difficult for any logistic specialists who know how to read maps, to determine what pathways on the map the main corridors and sub-corridors of infrastructure must

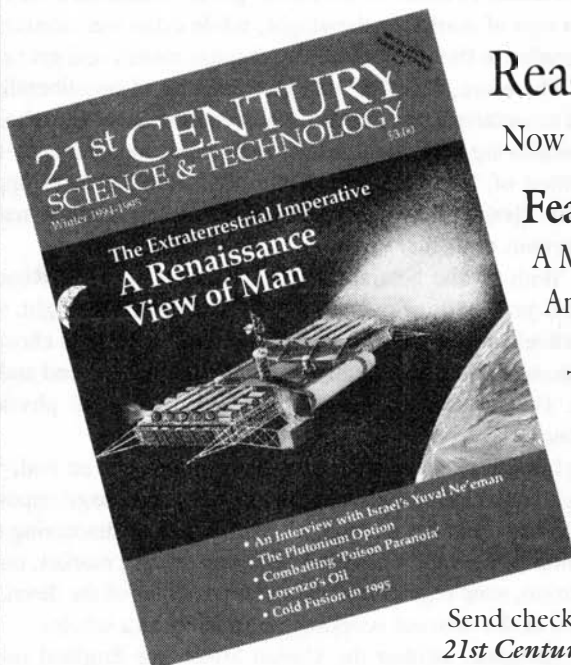
follow in the national interest. Any good choices will be the best practical choices, since we must begin very quickly, in order to ensure a national economic recovery and recovery of popular confidence.

My proposal is, that such infrastructure projects be planned now, and some parts of the projects actually begun. As most of us are painfully aware, at present, with the continued dominant role of the City of London and International Monetary Fund in determining what is allowed or not allowed in the economies of any part of eastern Europe today, large-scale infrastructural programs will be either sabotaged, or openly forbidden by these monetary and financial authorities. Once the financial system crashes, which will be soon, those authorities will be either nonexistent or very much weakened politically.

It is important to plant the seeds of the future large-scale projects now, by proceeding with useful smaller portions of those projects.

As I have described this proposed policy elsewhere, think of this as a process of building a bridge from Hell to Purgatory. Build the first foundations of that bridge on this side of the chasm today, and so assemble the cadres needed to put through the completion of the project on an expanded basis, once the political opposition to economic recovery has been neutralized by its own bankruptcy.

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