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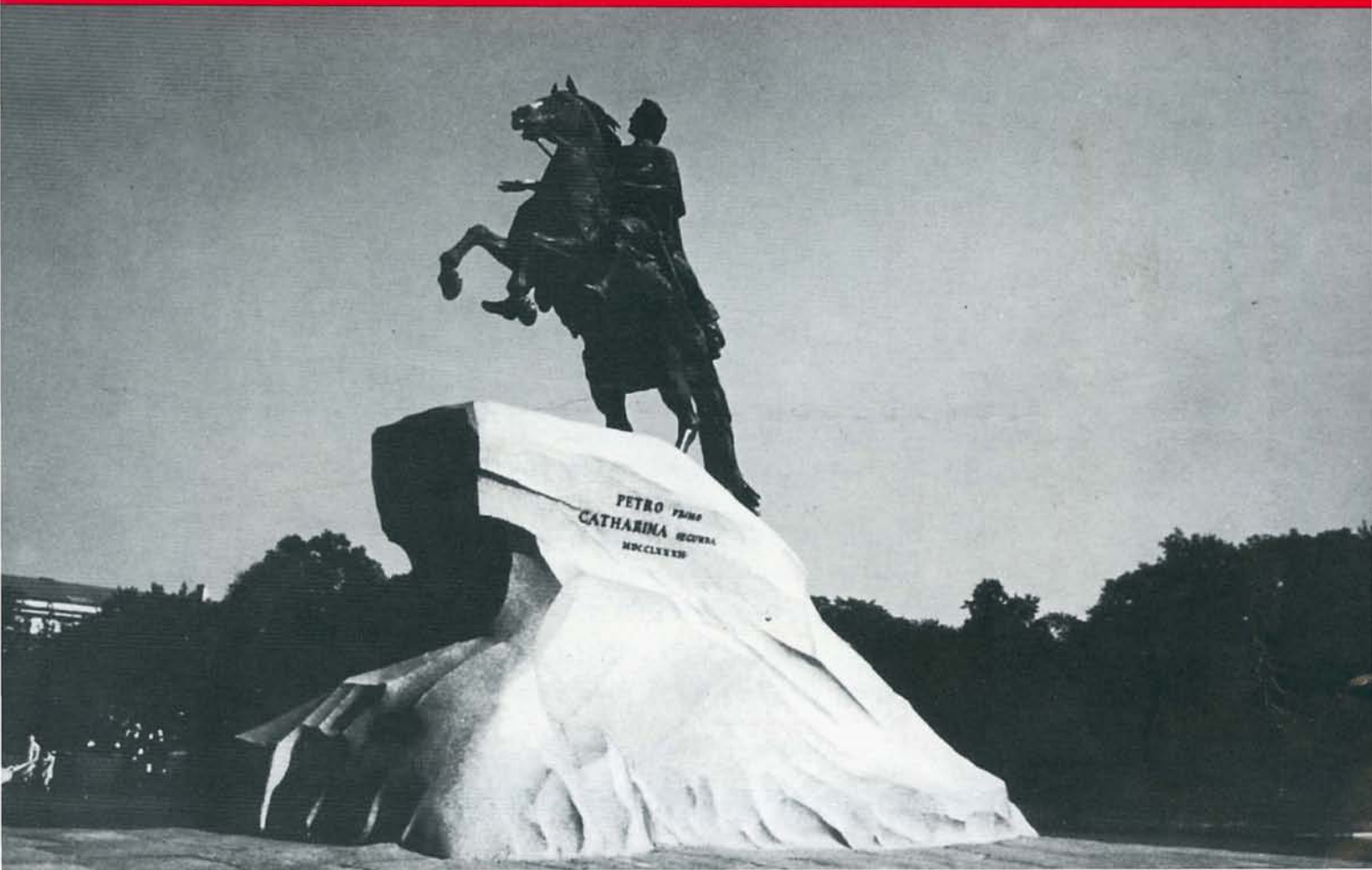
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**Global financial crisis
challenges Russia, U.S.A.**





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From the Associate Editor

On the cover is Falconet's statue of Czar Peter I of Russia, which is in St. Petersburg, the city Peter founded on the Baltic Sea. In his famous poem "The Bronze Horseman," Russia's great poet Alexander Pushkin (1799-1837) asks where the czar's "proud horse" is leaping—toward greatness, or tragedy? Pushkin wrote that Peter had "cut a window through to Europe," by building St. Petersburg.

Our *Special Report* is on that same battle as it is being fought in Russia today, featuring the intervention of Lyndon LaRouche during a visit to Moscow in April. The report begins with the transcript of a round table discussion held at the Free Economic Society, with leading Russian economists and political figures. Then comes an article by LaRouche, "More 'Nobel Lies,'" on the subject of the incompetence of the methods employed by Nobel Prize economists to assess the collapse of the former Comecon states under the impact of the "liberal reforms." The package concludes with a contribution by Sergei Glazyev, the economist and former member of the State Duma.

Don't miss LaRouche's next Presidential campaign broadcast, on Fox-TV on Sunday, June 2 (9:30 p.m. Eastern and Pacific times, 8:30 p.m. Central and Mountain). It will feature film footage of the candidate's Moscow trip, plus a report by him, to an American audience, on the nature of his intervention there (and here).

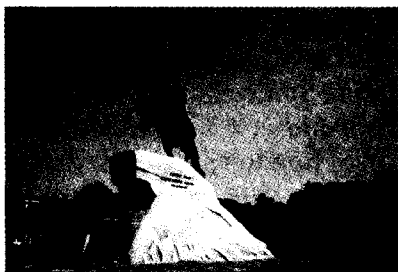
The case of Peter the Great reminds us that the collaboration of leading Russians with the West, at its best, always aimed at the economic development of all Eurasia. When the Russian Academy of Sciences was founded in 1725, the last year of Peter's life, it followed a draft program provided by Gottfried Leibniz, the philosopher, scientist, and statesman.

Leibniz also looked to China, seeking collaboration with the Confucian tradition there, for the betterment of mankind. The Schiller Institute's design for a Eurasian "land bridge," an infrastructure corridor for development, follows his precedent. Therefore, we are happy to report that on May 7-9, Helga Zepp LaRouche led a delegation to Beijing, China, to an "International Symposium on Economic Development of the Regions along the New Eurasian Continental Bridge." We will have a full report on this exciting initiative in a forthcoming issue.

Susan Welsh

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Russia, the U.S.A., and the global financial crisis

The round table transcribed here, was held in Moscow on April 24. It was sponsored by the Institute for Socio-Political Research (ISPI) of the Russian Academy of Sciences; the Free Economic Society of Russia; and the Schiller Institute for Science and Culture (Moscow).

The event was co-chaired by Academician Leonid Abalkin, who heads the Institute of Economics of the Russian Academy of Sciences and is a leader of the Free Economic Society, and Academician Gennadi Osipov, the director of ISPI.

Academician Leonid Abalkin: Ladies and Gentlemen, dear colleagues! For approximately two years now, the Free Economic Society has been holding regular round table meetings in this hall. Our general theme is, "Russia on the eve of the 21st century." We discuss a very broad array of questions here, beginning with such global problems as "Russia's economic security today and tomorrow"; in particular, our society was one of the initiators of putting this problem before the country's leadership. On the basis of this, the Security Council commissioned research on the relevant problems.

We have raised the questions of the development of small businesses, and the fate of smaller, but historically important Russian cities. Besides Russia, we have looked at the world economy today and in the future. I could enumerate many other interesting and important themes, which have been discussed here.

Since we have many guests today, I would like to explain that ours is strictly a public, scientific organization. We cannot adopt binding decisions or resolutions, affecting the course the country will take. Our task is to mobilize the intellectual potential of Russian society, and to draw the attention both of those in power and of the public, to the most acute pending problems for our economic development.

We work in this vein by means of our round tables, as well as through the publication of relevant materials. We publish regular editions of *Scientific Works of the Free Economic Society*, where the papers and other relevant materials from



Lyndon LaRouche (third from left, with shaded glasses) participates in a round table with Russian economists and political figures, at the Free Economic Society in Moscow. The portrait at the rear of the room is of Mikhail Lomonosov, the greatest Russian scientist of the eighteenth century, who died in 1765, the year that the Free Economic Society was founded.

these discussions are included. We have a periodical journal and a newspaper, published jointly with the International Union of Economists, which also extensively cover our discussions, making them available to the public. On the basis of these discussions, we regularly prepare analytical reports and memoranda, which are submitted to the official authorities—the Presidential organizations, the government, and the State Duma.

Our meeting today is of special interest, because we are hosting representatives of the well-known Schiller Institute. The theme which Mr. LaRouche has proposed, on behalf of the institute, is also of great interest to us. The formal title of this theme, as many of you saw from the invitation, is “Russia, the U.S.A., and the Global Financial Crisis.”

Many of us are familiar with Mr. LaRouche’s works and with his original ideas and approaches. I believe that original thoughts always promote exploration, and they are a spur to discussion; although, as a rule, they also do not pretend to contain the absolute truth or absolute judgment on a problem.

We have a fairly good idea of what the financial crisis is *in Russia*, not only from our great and long-suffering history, but also from analysis of the contemporary political-economic situation. But I would not want to give a lecture on this just now; I think that the forms and directions of this crisis may come up in the course of the discussion. As a rule, our discussions take the form of voluntary contributions, a respectful attitude toward the positions of the participants in conference, and a high intellectual level. I hope that our dis-

cussion today will be of this character, and that each of us will find it satisfactory.

I would like for the Russian participants to have at least a brief idea of what the Schiller Institute is, who LaRouche is, and what is his place in contemporary science. Therefore, I shall give the floor first to Professor Muranivsky, who is the representative of the Schiller Institute in Russia. Immediately thereafter, Mr. LaRouche will give a more elaborated presentation.

Prof. Taras Muranivsky: I am pleased to introduce our American guest—a scientist, educator, and political figure—who is in Moscow today. At the present time, Lyndon LaRouche is taking part in the Presidential campaign, from the independent wing of the Democratic Party; in several states of the U.S.A., he is running right behind Clinton, and in some states, where Clinton did not take part in the election, he came in first.

He is well known not only as a politician, but as a major economic scientist. And right now, while in our country we tend to go chasing, sometimes mindlessly, after various Western theories and try to treat them as being of some use for us—sometimes losing all sense of perspective—Lyndon LaRouche, beginning in the late 1940s and early 1950s and continuing right up to the present day, has put forward a precise and clear line.

Of course, in this short presentation I cannot elaborate the basic aspects of the entirety of his scientific views. I would like just to underscore, that to a great extent, these views



Co-chairmen of the round table: Academician Gennadi Osipov (left), director of the Institute for Socio-Political Research of the Russian Academy of Sciences; and Academician Leonid Abalkin, director of the Institute of Economics of the Russian Academy of Sciences and a leader of the Free Economic Society.

coincide neither with the official government posture of the U.S.A., nor with some of the critics of that policy. These are, indeed, original views—whether one agrees with them, or not; original and very fundamental views.

We have attempted to present some of this in Russian, as well. On the table, there are some of the publications. Many people [here] regularly receive the English-language publication *Executive Intelligence Review*, and thus many people here in Russia can make the acquaintance of these views.

My own opinion, is that LaRouche's conceptions and views contain much that is very useful, which we can adopt and utilize today. If economics is truly a science, it is of universal significance. And the views of scientists, regardless of what nation or party they come from, are also of universal significance; and it is incumbent upon us, at the least, to know and to study them. From that standpoint, Lyndon LaRouche is of particular importance for us.

I do not wish to bring up specific concepts right now. I think that we have the happy opportunity to hear them, as they say, in the original. And so, with your permission, I turn the floor over to Lyndon LaRouche.

Abalkin: Thank you for this introduction. And I myself give the floor to Mr. LaRouche, for his lecture. Please begin.

Lyndon LaRouche

We are in the middle of the worst international monetary and financial crisis of the century. The financial crisis has

two dimensions: its severity, and the efforts of many leading institutions in the world, to pretend it doesn't exist. But that is characteristic of every major crisis in history. Leadership consists of not denying the crisis, in the first place.

However, to understand the crisis, I propose that we consider it from the standpoint of approximately 60 years of U.S.-Russian relations. And, I think the importance of my approach in this case, will be clear to you very soon.

The relationship between the United States and Russia, in this cycle, began with the recognition of the Soviet Union by President Roosevelt, during his first term as President. During the period from about 1941 until his death in April of 1945, the relationship between President Roosevelt and Russia was very close. During that period, as you may recall—those of us who are older, especially, as I am—there was a great quarrel between President Roosevelt and Prime Minister Churchill, about the nature of the postwar world. Roosevelt was determined to liquidate the British, French, and Dutch empires. And also, to eliminate British economic methods worldwide, and to use instead, the methods on which the United States had been developed—methods which had been very successful between 1939 and 1943, in mobilizing the United States for war.

For his international policy, President Roosevelt relied upon relations with Russia and China, as the great power relations to guarantee the peaceful development in the post-war period.

At the death of Roosevelt, this changed radically, opening up a long period of conflict between the United States and Russia, under British direction. The form this took was that the Harriman machine in the United States, which was an extension of British international financial interests, took control of Harry Truman, who was a great admirer and faithful follower of Winston Churchill.

Managed conflict, 1945-89

And thus, from that time on, the history of the world until 1989, became a history of the manipulation of the world by a conflict between two great powers—Russia and the United States. This period, until 1989, is divided, for our purposes, especially economic purposes, into two general periods.

The first is the period up until 1962-63. Now, during this period, the conflict was at its most intense, even though there were efforts to set up a kind of globalist society, in the context of that. This came to a head with the so-called Missile Crisis of 1962, out of which came certain agreements which came to be called "détente." Under this period, from 1963 until 1989, the relationship between the two powers was characterized by managed conflict below the threshold of nuclear war.

And then, of course, 1989, 1991 occurred; and a new change occurred.

Now, the driver on the part of the British and their close collaborators in the United States, was as follows. The first



U.S. soldiers in Vietnam, September 1965. "Every night, on television, from the middle of the 1960s on," said Lyndon LaRouche, "you had battlefield pictures of American soldiers being shot to death, chopped to pieces, and so forth, on television. Under these conditions, what was induced in the United States (but not just the United States), was what was called a 'cultural paradigm shift.' "

thing that was done by the British faction in the United States was to collapse the mechanisms of economic growth in the United States, as a result of which, we had a recession from 1946 through 1948—very severe. It produced a politically dangerous demoralization among returning soldiers and their families. But from that point on, through to the present time, the United States has never had net economic growth, except in terms of mobilization for war, or for aerospace ventures. Every period of growth in the United States, since 1945, has depended upon the spillovers of military expenditures, or infrastructure development.

Between 1962 and 1968, there was a great change, which began to occur worldwide; and I shall speak of it, from the standpoint of what happened in the United States, for purposes of today's discussion. As you know in Russia today, very painfully, sometimes political changes produce great cultural shocks. I'll identify five events from the period of 1962 through 1968, which were the circumstances for a fundamental change, in cultural outlook and economic policy of the United States—changes which occurred under the eye of the television set. Mass television broadcasting was already a major factor in social behavior in the United States.

In 1962, during the fateful weeks of the crisis over the Cuba Missiles, the television sets convinced the American population, that the world was on the verge of general thermonuclear war—immediately. This had a great effect, and a great shock, among the American population.

Thirteen months later, the President of the United States

was assassinated. Other assassinations occurred, including those of Martin Luther King and Robert Kennedy, the brother of President Kennedy.

The agreements which had been reached during the 1963 period, led to the unleashing of a great cabinet war, in Indochina. Kennedy had attempted to stop this. But upon his death, McGeorge Bundy convinced President Johnson to proceed with the war. By 1965, McGeorge Bundy was organizing the anti-war movement, against the war he had created. That is, McGeorge Bundy, while in the National Security Council, had organized the war. He then left the government and went to work for the Ford Foundation, where he organized the anti-war movement.

Again—television; every night, on television, from the middle of the 1960s on, you had battlefield pictures of American soldiers being shot to death, chopped to pieces, and so forth, on television.

Under these conditions, what was induced in the United States (but not just the United States), was what was called a "cultural paradigm shift." During this period, there were three basic axioms of cultural change, which have determined the course of the world economy ever since.

Number one, was the introduction of the rock-drug-sex youth counterculture. This followed the precedent of the youth counterculture of Europe, during the 1920s and 1930s, out of which the fascist movements of that period came.

The second, and most important, in terms of economics, was the rejection of the American tradition of improvement

in the productive powers of labor, through investment in scientific and technological progress in production.

At the same time, thirdly, over the period from 1967, with the British sterling crisis of November 1967, through the period of the U.S. dollar crisis of 1971, and the 1972 Azores monetary conference, the stability of the world monetary and trade system broke down. There was a disintegration of the monetary agreements of Bretton Woods, which led to the establishment of the first step toward globalist economy, which was the floating exchange rate monetary system.

I'll just say one more thing about this, in relationship to international political relations. The dynamic of the entire post-Roosevelt period, has been managed conflict, in which the only drive toward economic development, was based on military-strategic requirements. The economic history of the United Kingdom since the eighteenth century, is a parallel precedent for this. As it became clear, beginning with the success of detente negotiations, that the conflict between the Soviet Union and the United States would be limited to conflict below the threshold of general war, two things happened: The collapse of the economy, affected by the military sector, occurred by plan, in the United States and elsewhere; and, beginning 1967, a general collapse of the military-scientific sector of employment, in the United States.

Also, by 1970, the investment in infrastructure maintenance and improvement had fallen to a net zero; that is, the rate of depletion of infrastructure was now as great as the expenditure for maintaining infrastructure.

This cultural change that was part of the economic change, was initially centered in university youth of the middle-late 1960s. These are the people who today are running the United States' private and public institutions, from the top. You will find parallels, of course, throughout the world. And, in fact, this tendency spread from the United States and western Europe throughout most of the world. It spread to other sections of the population, beyond the college and university population.

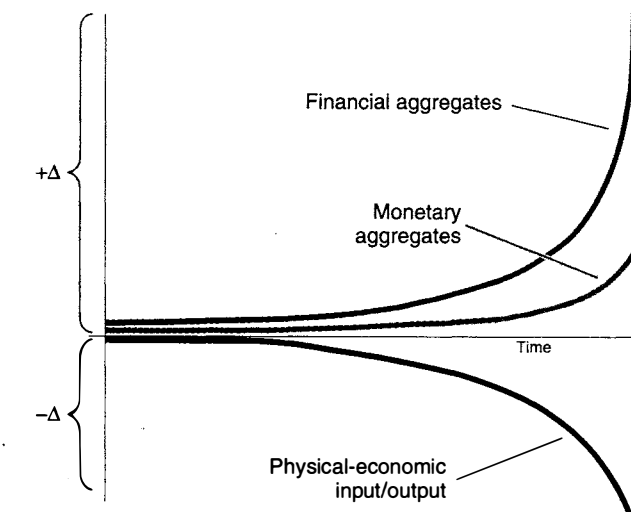
With the result of this political influence, this cultural change, radical changes were made in economic policy and policy of practice.

What I shall refer to now is this curve, which I've used a number of times (**Figure 1**). This is a pedagogical curve, but does correspond, functionally, to what has happened to the world economy, as well as the U.S. economy, over the past 30 years.

There are three parameters that have to be considered. The first, without considering financial or monetary considerations—using no monetary yardsticks for measuring economic performance, but using purely physical measures of productivity and income; because, as you probably know, most monetary figures are fraudulent anyway. The market basket, which I use to measure this, consists of physical output, including infrastructure physical output; plus, three categories of services: education, medical and related care, and

FIGURE 1

A typical collapse function



those other forms of scientific and technological services, which are necessary to keep economic progress. We measure this in respect to not only households, but basic economic infrastructure, also manufacturing and agriculture, and other industrial categories. We measure this in terms of values per capita of labor force, per household, and per square kilometer of land area of relevance.

In those terms, the U.S. economy, since 1970, has been in a net, secular physical economic decline, at rates which exceed 2% per year. For example, if we take a market basket of consumption of productive labor in the second part of the 1960s—to maintain the same physical standard of living. Let's say a steelworker, age 40, with a family, a steelworker who was assisting his children in university education. To replicate that income, would require a U.S. dollar standard of living today of about \$75,000-80,000 per year per person. To produce sufficiently to meet that requirement, would mean doubling employment, at present rates of productivity, in virtually every industry which produced components of this standard of living.

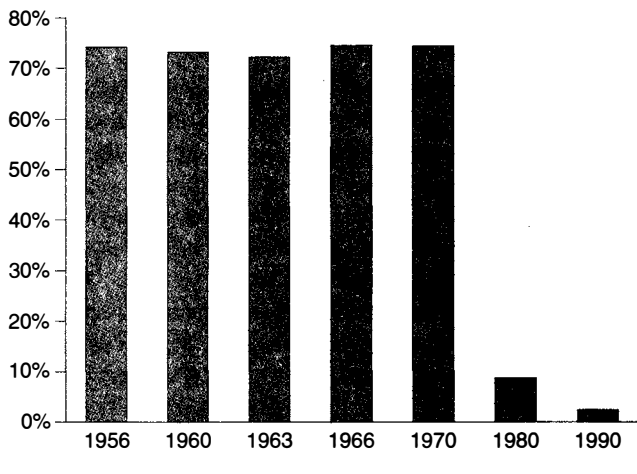
Among the industrialized nations of the world, the general level of economy has collapsed, catastrophically, over the past 25 years.

Now, in the meantime—while we have a declining curve, as Figure 1 shows, in terms of function, of physical output per capita—there has been a decoupling of monetary processes from physical productive policies.

I'll give you just one set of figures from the United States, which illustrates that most dramatically. From 1956 through 1970, of total U.S. foreign exchange turnover per year, 75% was accounted for in merchandise trade: exports and imports. In 1976, this had fallen to 23%. In 1982, this had fallen to 5%. In 1992, to 2%. Recently, it's less than one-half of 1% (**Figure**

FIGURE 2

Mercantile trade as percent of foreign exchange



2). Thus, the circulation of money is no longer related to production or economy in general.

Thirdly, we have, in addition to the monetary inflation, financial inflation. Monetary inflation refers to the money in circulation. Financial inflation, to financial charges which represent claims against monetary circulation of paper.

When you increase monetary circulation, relative to production and trade, another type of debt is created. Currently, the daily turnover on world markets, chiefly in the British financial sector, for pure financial speculation, has reached levels in excess of \$3.5 trillion a day. So you take the ration of financial obligations, which demand payment from an expanding monetary aggregate, then the monetary growth is dependent upon looting an already shrinking per capita physical output. The relationship of monetary growth to physical contraction gives us a virtually hyperbolic rate of growth of monetary growth to that, and therefore a hyperbolic growth of debt.

On the second side, we have the rapid hyperbolic growth of financial speculation, relative to monetary circulation.

Therefore you have a system which is not facing a future crisis, but a system which is presently involved in a *global breakdown crisis*. When you get these kinds of hyperbolic developments in economic processes, you are reaching a discontinuity. And the governments today, I must say, in the face of this, are like the people on the *Titanic*, who no longer had rowboats to escape from it. They're having one last party, before the ship sinks.

This comes right back to what I started from. From the standpoint of the United States, our law and tradition enable us to cope with this problem domestically. The President has the combination of emergency law powers and Constitutional powers, to solve the internal part of this crisis, in the United

States. And, if you look behind the curtain of the election campaign, you will see that, in the Congress—in the Democratic leadership in the Senate and the House of Representatives—preparations are being made for these changes. The President can put the Federal Reserve System into bankruptcy, which has to be done. The Federal Reserve System is a private bank, chartered by federal law. It is bankrupt, as soon as somebody chooses to recognize the figures which prove it. The President can, under the U.S. Constitution, with the consent of Congress, create a new monetary system for the United States. Through the device of emergency legislation, that can be done in 24 hours. A new banking system for the United States, can also be created by emergency legislation, in 24 hours.

But, in an interconnected world, this requires the United States to call together other powers, to set up corresponding international monetary reforms. There are only four world powers on this planet: There's the United States; there's the British Empire (not the United Kingdom—that's a joke; the British Empire), which will be the major opponent of any such change; there is, third, Russia—even despite Russia's condition at present, Russia is a world power, and at least the current President of the United States recognizes that fact; China is also a world power. There are no other world powers.

Therefore, Russia, has a very crucial role to play in this process, which is a political role, more than anything else. The combination of the United States and Russia, now, as in 1945, with the cooperation of China and with the cooperation of other, lesser powers, who require the benefit of the same kind of development—we can change the course of world history, and get out of this economic mess.

Now, the reason this possibly may occur, is because of the so-called force of Reason. None of us have any alternative.

The problem today, is the lack of confidence in a leadership which is willing to act in this direction. To give you an example of what I mean, just, in conclusion, one thing: Between 1939 and 1943, under the leadership of President Roosevelt and under conditions of war, in which we had 17 million Americans in uniform, we took a bankrupt, depression-ridden U.S. economy, and produced the greatest industrial machine on this planet. In the Soviet Union, under conditions of war and invasion and occupation, a similar courageous effort was made. The same methods, principles, the same spirit, done in the name of works of peace, can accomplish the same kind of result, any time we find the leadership and will to do so.

Behind the charade of politics-as-usual, a great number of us in the United States, relatively speaking, are discussing these matters. We don't all agree on all the details, but we continue to move in the direction I've indicated. I'm just a little more aggressive than most of them, as is my disposition.

And, I would suggest, therefore, in conclusion, that the job before us sometimes, of course, comes down to diplomats and elected government officials; but governments cannot act

on ideas, unless those ideas are established in some influential circles. My concern is to broaden and deepen the discussion of precisely this, among intellectual layers, which are influential in shaping the thinking of governments. Because, as you know, when governments and political leaders make decisions, they turn to advisers and say: "Will it work?" And at that point, advisers stake the outcome of their life's reputation on the answer they give, whether "Yes" or "No." And that's my message to you.

Questions to LaRouche

Abalkin: Thank you very much, Mr. LaRouche. I think we have heard a very interesting presentation, which will



The combination of the United States and Russia, now, as in 1945, with the cooperation of China and other,

lesser powers, who require the benefit of the same kind of development—we can change the course of world history, and get out of this economic mess.

—Lyndon LaRouche

provoke discussion in reply. But, before beginning the presentations of opponents, or other participants in the discussion, perhaps we could have a few short questions. I just have one request to those who intervene: to identify yourself, and to be as concise and precise as possible in formulating your question—not philosophically, but so that the question be understandable, so that the answer may be precise and clear. Academician Senchagov, please.

Vyacheslav Senchagov (director of the Center for Banking and Financial Research, Institute of Economics, Russian Academy of Sciences; Member, Academy of Natural Sciences): Mr. LaRouche, I have listened to your lecture with great interest. I have a question, related to the creation of a new banking system. Could you name, as precisely as possible, the main two or three elements of such a system?

LaRouche: Currency, in a modern state, is created by the debt of the government converted into a monetary form. The

ideal form is the so-called issue by the Treasury of the government of a medium of exchange which can be described as currency notes. The circulation of these currency notes, as credit, through lending mechanisms, banking mechanisms, is then used to expand the economy by selective credit guidelines.

This has been done in the United States' history a number of times. This is our model for it. One, is the Massachusetts Bay Colony in the seventeenth century. It was the first nation—or the first government—to experiment in this, quite successfully. That tradition was continued, through the formation of the U.S. federal Constitution, and led to the formation of the Bank of the United States.

The essential distinction is the difference between *private* banks, which function as central banks on the basis of a charter from governments, and a credit system which is controlled by the government itself. In the United States' experience, it's been a credit system controlled by the government itself which always leads to growth. And, that's the kind of system I'm talking about.

Yelena Viduta (Plekhanov Russian Economic Institute): I have the impression from Mr. LaRouche's presentation, that four countries should get together to find some optimal solution, for changing the course of society's development.

LaRouche: Essentially three; one won't. There are four powers, but three of them will unite.

Viduta: What do you think of this other point of view? Maybe it would be more effective if, say, Russia were to put forward its own conceptualized program, its own policy for economic recovery and development, wherein the main task would have to be how to stimulate productive investment, and to present this to the West as an accomplished fact. Wouldn't that be simpler, than trying to reach agreement beforehand?

LaRouche: I think there would no difficulty, really, if Russia were committed, and if the President were not in an election campaign, that is, the President of the United States. You know, when a President is in an election campaign, he adopts many cats and dogs he kicks out of the house after he's elected.

But, in practice, the President of the United States as you've seen manifest in his efforts, his groping efforts: Unlike Bush, the opposite of Bush, President Clinton has been concerned to find a pathway for partnership with Russia, and also to try to develop the basis for future partnership with China.

The President of the United States understands the Roosevelt tradition, and is part of it; but of the 1960s anti-war generation. He has attempted to use Germany to cooperate with Russia, saying that Germany should be the European partner of the United States and Russia. The President's views are not always shared by his State Department, which is not an entirely unusual affair in government.

But if, from the side of Russia, there were a clear indication of *desire* to do what you say, that would make for a very interesting discussion between the Presidents of the United

States and the Russian state, saying, "Can't we do it together?" And you would find, with Clinton, I think, difficulties, but an open door.

Abalkin: Thank you. I shall ask a question, if I may. In Clinton's most recent message to Congress, he set the task of completely eliminating the budget deficit within seven years, by the year 2002, and he proposed a concrete program of measures for this purpose. My question is, whether you consider this program realistic, and is it related to the program for reorganizing the financial system, which you are talking about?

LaRouche: It has a relationship to an old Russian story, about the troika being chased by wolves. I'll summarize, because I think the question is typical of many questions that could be asked in the same direction.

Things are not always what they seem, especially not what the press says they seem.

The President, as is well known, has a bitter enemy in the British monarchy. After 1994, the friends of the British monarchy, which are called the neo-conservatives, or the "Gingrich types" in the United States, took over the Congress. These are all associated with an English society which you, Mr. Abalkin, may know: the Mont Pelerin Society of the late Friedrich von Hayek. These are very dangerous people, politically.

The President is a pragmatist. He was willing to throw a baby out of the carriage, out of the troika, to the wolves, until he could get through the next election. You probably are familiar with our American pragmatic standard. You will also agree that many people, including myself, who have been close to the President, may be running on a somewhat different track during this period than he is during his election campaign. Once he's reelected, and on condition we take over the House of Representatives again, it will be a completely different story.

Abalkin: As for babies who are tossed out of the troika on election eve, this is something we in Russia can understand very well. In this regard, I believe, we are very similar to the Americans. Or, perhaps politicians are always like that.

Valentin Pavlov (former prime minister and former finance minister of the U.S.S.R.): My question is a simple one. To what extent are your concerns connected with the formation of the ECU system and the strengthening of the [German] mark?

LaRouche: The ECU system, when it was first started by Chancellor Schmidt and President Giscard d'Estaing, in 1978—I defended it at that time, because we had a lunatic as President of the United States, by the name of Jimmy Carter, and it was necessary to bring some kind of credit stability into Europe to prevent political and other disasters.

Recently, the same system has been used, since a British agent was President of France, called François Mitterrand, who, remember, rammed through an agreement, under British direction, called Maastricht. And, this was to prevent the kind

of policy coming out of Germany, which you probably know of in terms of the proposals of former Deutsche Bank leader Alfred Herrhausen, to extend credits.

I am opposed to what is happening now, as I am opposed to the extension of NATO to the borders of Russia and its Near Abroad neighbors. I'm opposed to the dissolution of the principle of national sovereignty, and the replacement of national sovereignty, as a system, by regional and international, supranational government.

Abalkin: Thank you. Let this be the last question.

Representative of the International Slavonic Academy: I follow your work with great interest. I find that an important, convincing aspect is the effective combination of your own economic approach, with geopolitical considerations. I am particularly struck by your saying that united efforts by the chief world powers are necessary for the reshaping of monetary and economic policy. At the same time, it is important to see that the leaders of the world powers—the United States, as you have discussed, and we could say the same for Russia—are limited by a number of important factors. You cited, for example, the electoral campaign; or, even the actions of the secretary of state—these are limitations. My question is the following: Is it sufficient to have agreement among some three or four world powers, in order to implement the rational course you are talking about, or is the main thing the position of those centers of transnational capital, which, in practice, created this financial crisis?

LaRouche: Simply, we have been under the rule of Great Power systems since the end of the war. The problem is, the smaller nations of the world, among which one must ironically include India, have no power to resist these international authorities. Only a majority combination among great powers, can break the power of these international authorities. Therefore, not in order to create another global hegemonic system, but to create a world which is safe for sovereign nation-states.

We're in a great struggle. We're in a great, strategic world-historical struggle. And therefore, as in war, the unity of great powers can be decisive in whether you win the war or lose it, as Roosevelt understood before he died.

Abalkin: Thank you. We shall now move on to the discussion. I have here the names of several people, who have already indicated their wish to speak today. First, I give the floor to Ivan Korolyov.

Ivan Korolyov

Mr. Korolyov is a professor, deputy director of the Institute for the World Economy and International Relations (MEMO) of the Russian Academy of Sciences.

Thank you very much, Leonid Ivanovich. I shall try to be brief, so that there will be time left for discussion.

You know, we have such a situation in Russia, that when we look at the world situation, it looks good, compared with what is happening here. I agree with Mr. LaRouche, that, indeed, the expansion of private capital flows, in particular, creates a potential danger. If we look at the crises that did take place in the West since 1987, we see that there were just two or three crises on the stock markets; a slight problem with the British pound in 1992; problems that year with the European Monetary System—also, not very serious, in my view; the collapse of one major British bank and one large American investment house. As the saying goes: If only we had *your* problems!



The main task is to create the possibilities for initiative, to create work for millions of people—the very problem, which we were seeking to solve for decades, during the existence of the Soviet Union.

—Ivan Korolyov

But at the same time, strange as it may seem, there is a parallel between the global financial situation, and the situation in Russia. And that is located in the insufficiently effective level of state intervention in economic processes. There are, however, different causes for the ineffectiveness of state intervention, internationally and in Russia. In the economy of the West, we are now at the peak of the relative development of *market* forces, as opposed to state intervention, in the entire postwar period; in my view the situation in Russia, however, is different.

Russia's unique situation

A unique situation has come about in Russia, where, on the one hand, state policy is insufficiently effective, but, on the other hand, the possibilities for normal, honest enterprise are even less than they were in 1992. Real market freedom exists only for certain large monopolies, such as Gazprom or Lukoil, which are able to act as they wish, even in contradiction to the political interests of the state. Therefore, strange as it may seem, the essential problem for Russia is rather different than for the economy in the West: The main task is

to create the possibilities for initiative, to create work for thousands and millions of people, and for ordinary enterprises—the very problem, which we were seeking to solve for decades, during the existence of the Soviet Union. This is the basic problem; because, if you compare Russian society and the Russian economy—it's absolutely different, from normal Western society.

In conclusion, I would like to comment on one question, namely the possibility of reshaping the world financial system, with Russia's participation. As far as I know, the existing projects for changing the world financial system are rather modest and comprise three elements. The three questions are: establishing currency fluctuation bands, target zones, instead of free floating; expansion of the IMF's issuance of Special Drawing Rights; and, increased coordination of monetary policy among IMF members. These are rather modest goals, compared with what Mr. LaRouche is talking about.

If, then, we take the question of what interest Russia has in participating in the restructuring of the international monetary system: Strange as it may seem, our possibilities for doing so are rather less than they were in 1944. As you know, in 1944, Russian specialists occupied an important place at Bretton Woods and often played a key role in resolving conflicts between Mr. [Harry Dexter] White and Mr. [John Maynard] Keynes. At that time, the Soviet Union was *not* included into the international system as Russia is today.

Today, we are the biggest debtor in the world, as well as the biggest creditor. We now have a convertible currency, and free access for our firms to international markets. In my view, although I think that some of those present will oppose what I say, we should concentrate on our Russian problems, rather than get into world politics. I think that for many Russian citizens, who—unlike me—are not very well off, it is unnerving to hear constant assertions, that Russia is a great power. The standard of living of the majority of Russians, especially in the smaller cities and most of the rural areas of central and northern Russia, does not permit us to declare that Russia is a great power. And thus, I think that we must concentrate on our own problems, while doing what we can at the international level, for the stability of the international financial system.

In conclusion, I would make one remark about any fundamental reshaping of the international financial system. I am afraid that, as a matter of principle, it may be an illusion, to think that it is possible to pose this task of reshaping the international system. Let us remember the Bretton Woods conference. In everything its participants did, they tried—by means of international agreements—to reestablish the monetary order, which had existed before the crisis of the 1930s. That's all! And the currency fluctuation limits they established were nothing but the old gold points that had existed before the war. I am a pragmatist, and I'm afraid that any politician will always achieve the maximum, if he simply sums up the already existing experience, and tries to imple-

ment it in a normal fashion. Unfortunately, we have had many people in Russia since the beginning of this century who tried to restructure the entire situation on a worldwide basis. Perhaps that is why I am skeptical about such plans. But I would like to say that, on the whole, in political terms, your statement, from my point of view, was very interesting and important. Thank you.

Abalkin: I have here a preliminary list of people who wish to speak. Others who would like to speak, please write me a note. I am a great advocate of the kind of modesty, which Mr. Korolyov exhibited during his intervention. Now, I give the floor to Mrs. Marivilia Carrasco.

Marivilia Carrasco

Marivilia Carrasco is president in Mexico of the Ibero-American Solidarity Movement, founded in 1992. The portions of her written speech that were not delivered orally appear in brackets.

Dear Friends! I am honored to participate in this seminar, with the hope of building bridges among us, the representatives of various nations of the world, in order to bring about a global solution to the current world crisis which threatens the very existence of civilization.

I know that my country, Mexico, was held up as an example by the International Monetary Fund and by idiots such as Jeffrey Sachs, during the period of ex-President Carlos Salinas de Gortari, of what Russia and other nations should do in order to "insert themselves in the global economy." [For those who believed this fairy tale, they should beware the fate of ex-President Salinas and look at what he is up to now: traveling around the world just one step ahead of the law, trying to avoid the ongoing investigations of various governments about his alleged ties to dirty money laundering, a virtual exile from Mexico. From Havana, Cuba to the Bahamas, protected by the mafia which brought him to power and kept him there for six years: George Bush and his friend Fidel Castro.]

So, after the monetary and financial explosion of Dec. 20, 1994, I trust that you are convinced that the "Mexican model" is not the path to be followed. [And if that is not the case, I hope to be able to convince you today, because there are still a few pro-Salinas lunatics hanging around, in London, in the IMF, or in the U.S. State Department, who insist that it was all a local administrative "mistake," an error regarding when and how to devalue the peso. That is false, from top to bottom.]

The first explosion of the Mexican debt bomb occurred in 1982. In September 1982, Mexican President José López Portillo nationalized the central bank, declared a moratorium on the foreign debt, and tried to create a debtors' club among the countries of Ibero-America. [The debt crisis back then was the direct result of the policies of the chairman of the

United States Federal Reserve, Paul Volcker, of sharply raising interest rates.

At that time, an anti-imperialist spirit reigned in Ibero-America. This was the result, not of Fidel Castro, but of the effort of Argentine patriots in April of 1982 to assert their sovereignty over the Malvinas Islands, which the British call the Falklands, and which were illegally occupied by the British Empire since the beginning of the nineteenth century].

Lyndon LaRouche, who met with Mexican President López Portillo in 1982, at that time urged the governments of



Ibero-America has been subjected to the most criminal, Nazi policies of looting of its physical economy and of its labor force, under the supervision of the IMF. We went from being nations to becoming, quite literally, enormous concentration camps.

—Marivilia Carrasco

Ibero-America to respond to the British aggression with "the debt bomb," an expression which LaRouche coined, in his famous study "Operation Juárez," published in August of 1982.

LaRouche proposed the formation of a bloc of debtor nations to act with iron unity, and thereby force the international financial oligarchy, the creditors, to negotiate a just new world economic order, [by threatening to bankrupt them by jointly suspending payment on the foreign debt, a powerful weapon indeed at that time.]

Ibero-America failed to unite, and that historical opportunity was lost.

LaRouche's warning back then, is today more valid than ever. President López Portillo adopted it and posed it in the following terms in a speech before the United Nations in October 1982: "Either a new world economic order is accepted, or civilization will sink into a new medieval Dark Age with no hope of a Renaissance."

[One day before the Mexican President's speech, the U.S. secretary of state at the time, George Shultz, had said of Mex-

ico and Ibero-America: "Economic reforms must be carried out . . . and you must put an end to protectionism. . . . In this regard, the IMF can provide critical help and guidance."

Note well his use of the term "protectionism"—not "socialism," "statism," or "communism." Protectionism, which is a tradition in economics in Ibero-America going back to the influence of the American System of Alexander Hamilton and even before, to the influence of French protectionism in Spain.]

Since the early 1980s, Ibero-America has been subjected to the most criminal, Nazi policies of looting of its physical economy and of its labor force, in order to pay the foreign debt, under the supervision of the IMF. We went from being nations, or aspiring to be nations, to becoming, quite literally, enormous concentration camps.

The magic of 'bankers' arithmetic'

That looting is based on the classical IMF swindle of supposed restructurings of the foreign debt, which are in fact refinancing of old debts premised on the imposition of radical free trade measures such as GATT and NAFTA; brutal currency devaluations; freezing of wages and prices; freeing of interest rates; deregulation of the economy; privatization of state-sector companies (that is, cheap, bargain sell-offs, through the scheme of swapping debt for equity); deregulation of foreign investment; and so on. All of this is done with a single purpose in mind: to guarantee the payment of the foreign debt, while making sure that not a single cent is invested in the real economy.

[From 1983 until the present, but especially over the last six years, Mexico has auctioned off the majority of its 700 state sector companies, some of which were among the largest of Ibero-America—including the telephone company Telmex, the fertilizer company Fertimex, various steel plants, chunks of the oil industry, and so on. During this period, Mexico paid, punctually, an average of \$14 billion per year. And yet, the foreign debt increased, rather than diminishing.]

As can be seen in **Figure 1**, in 1980, Mexico's official foreign debt was \$57 billion. Over the next 15 years, from 1980 to 1995, Mexico paid about \$131 billion in cumulative interest payments alone; but by then it owed \$159 billion. Yes, that's right: $\$57 - \$131 = \$159$! That's what we call "bankers' arithmetic." It is pure usury!

For Ibero-America as a whole (**Figure 2**), the situation is very similar. In 1980 Ibero-America owed \$257 billion. Over the next 15 years, it paid \$448 billion, but ended up in 1995 owing \$607 billion. $\$259 - \$448 = \$607$. How do you like that?

As you can see, Europe and Central Asia—including Russia—have also been victims of "bankers' arithmetic" (**Figure 3**). Here, the total foreign debt was \$88 billion in 1980; over the next 15 years, \$196 billion was paid in cumulative interest payments; and yet, at the end of this period, the debt had grown more than fourfold, to \$378 billion.

Figure 4 shows the looting of the physical economy of

FIGURE 1
Mexico: debt and interest paid
(billions \$)

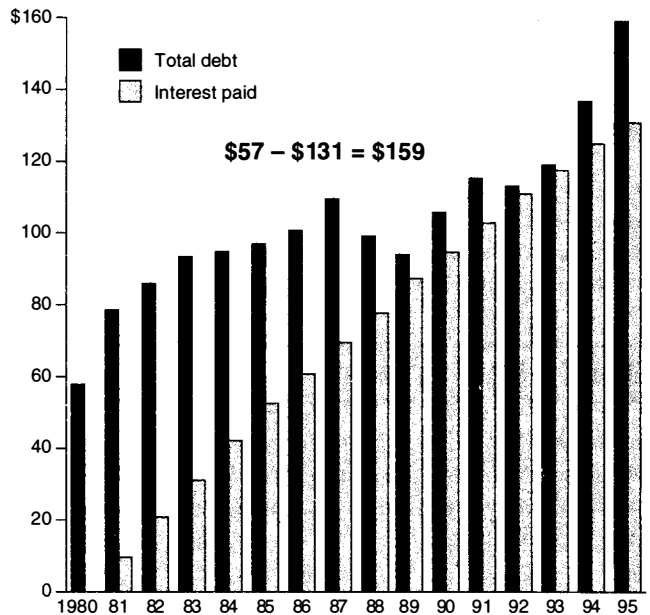
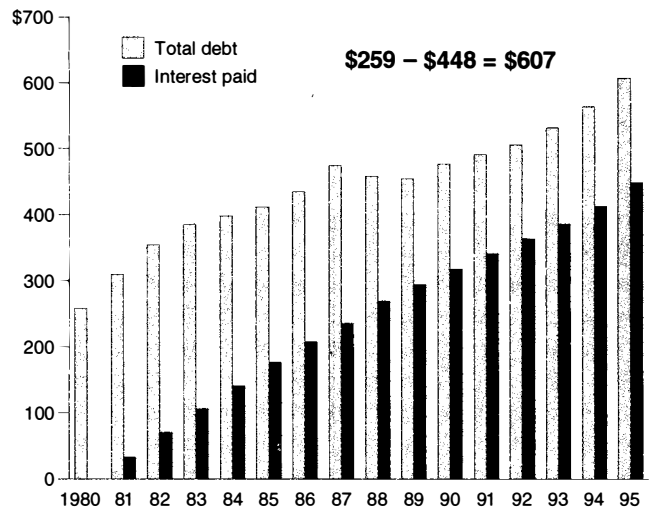


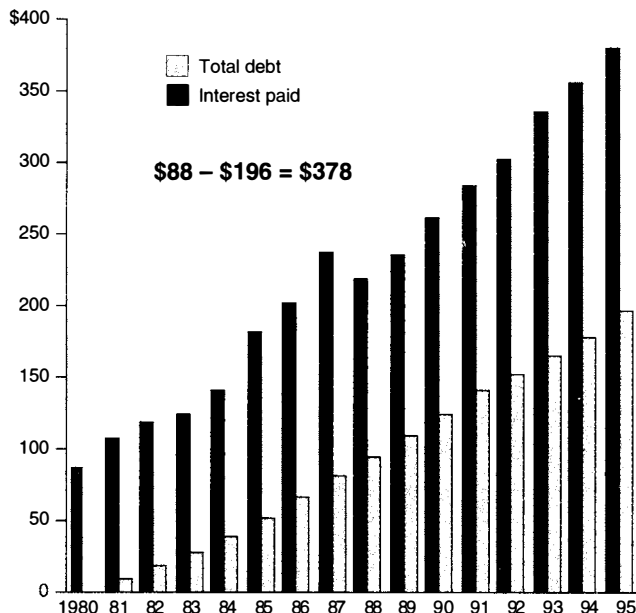
FIGURE 2
Ibero-America: debt and interest paid
(billions \$)



Mexico, as reflected in its balance of trade. From 1976 to 1981, under López Portillo, Mexico ran a healthy trade deficit, because national policy was oriented towards importing capital goods, which in turn generated productive jobs. Starting in 1982, when the debt bomb exploded, the IMF imposed conditionalities on Mexico which created a trade surplus (a

FIGURE 3
Europe and Central Asia: debt and interest paid

(billions \$)



drastic reduction of productive imports, and an increase in exports), by reducing internal consumption, freezing wages, and increasing unemployment, all in order to pay the foreign debt.

Abalkin: Excuse me, but I asked the speakers to show restraint. If you have written material, it will be possible for people to consult the published proceedings of the round table, where it can be included in the record and the publications; but we have a large number of people wishing to speak, so I would ask for limitation of the speaking time. Although this is very interesting for me.

Carrasco: Very good. I just want to show the next slide (Figure 5), where you can see that [as a result of these policies] the whole [foreign] debt of Mexico grew by 234% over this period, while physical-economic output collapsed by 2%, in the case of cement, to 27%, in the case of steel.

Financial, economic policies decoupled

I basically wanted to show you some of these details, first of all because Mexico is a very good example of what will happen in many other economies; secondly, because we have reached an extreme situation, in which all these policies have created a situation which is already *recognized by the government of Mexico as a starvation situation*, for a big portion of the population.

[In 1987, this looting model led to a crisis—the agricultural, industrial, highway, and energy infrastructure was destroyed through lack of investment—and, in its place, the

FIGURE 4
Mexico: balance of trade

(billions \$)

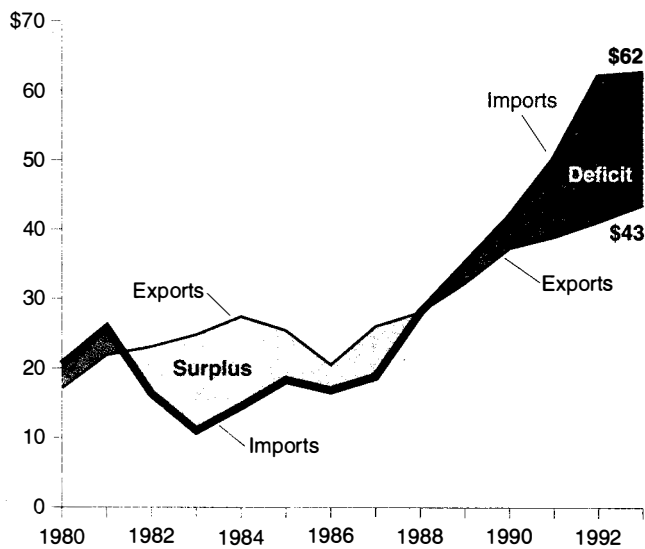
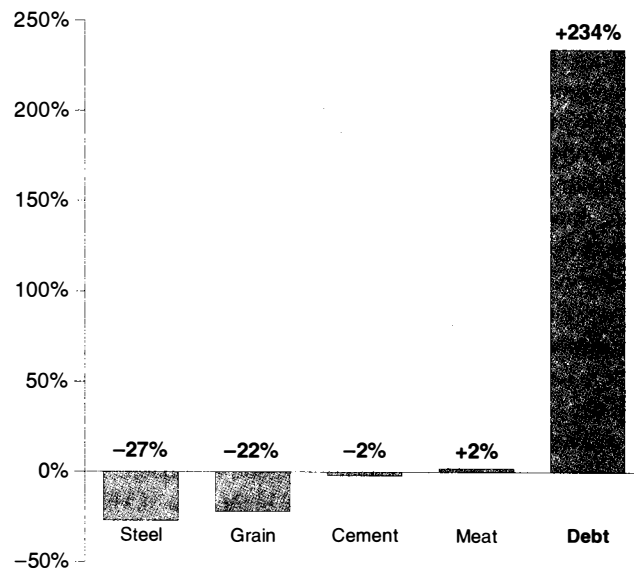


FIGURE 5
Mexico: growth of foreign debt versus production, 1981-93

(percent change)



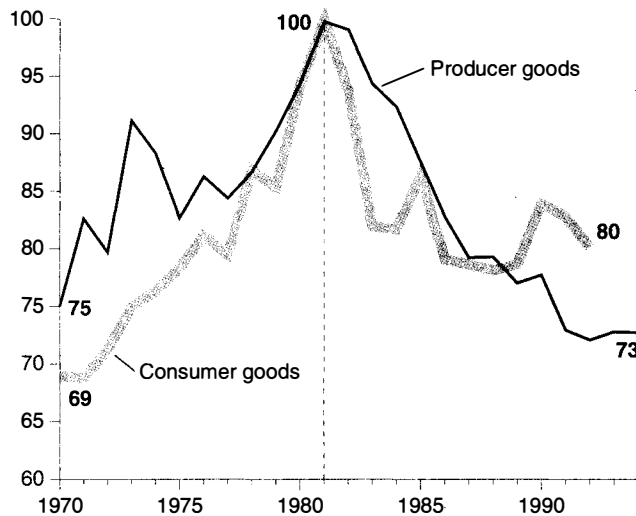
Sources: World Bank, ECLAC (United Nations), INEGI (Mexico).

IMF imposed a policy of massive, indiscriminate imports by eliminating all trade barriers. This total free trade policy led to the final annihilation of the nation's productive agricultural and industrial sectors.

FIGURE 6

Mexico: producer and consumer goods

(index 1981=100)



Sources: ECLAC (United Nations), INEGI (Mexico).

Figure 6 shows the collapse of the per-capita production of consumer goods, and of producer goods, measured in physical terms, by 20 and 27% respectively, from 1982 until the present.

Perhaps the greatest crime in Mexico was the destruction of national agricultural output (**Figure 7**). While the non-performing debt of farmers grew exponentially, the euphemism of “comparative advantage,” was used to tell us that we should import cheaply that which was produced internally at greater cost. Thus, Mexico allowed foreign grain, meat, milk, etc. to enter the country, and the country was made totally food-dependent, at exactly the moment that the grain cartels monopolized ever larger shares of the world market of scarce food. Here you can see the collapse of Mexican grain production, and even though increasing amounts are being imported, there has been an almost 30% drop in per capita consumption in the country since 1981.

The decoupling of financial manipulations from the physical economic process, which Lyndon LaRouche has identified on a world scale, is illustrated in the case of Mexico, both in its internal as well as its external financial processes.

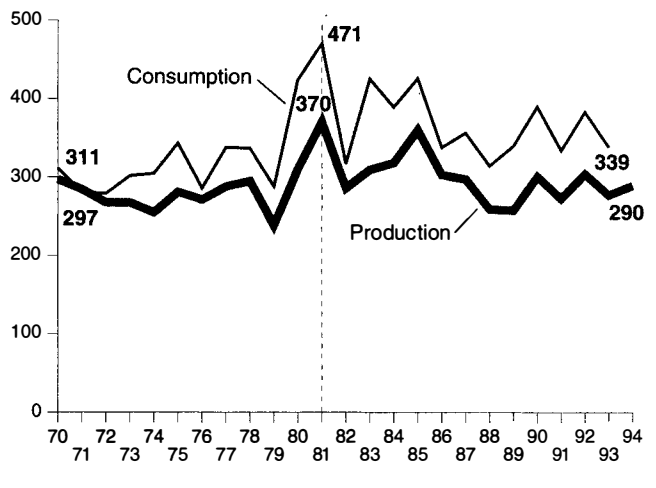
1994: The speculative bubble popped

What collapsed in December 1994 was the speculative bubble that was created under the administration of Carlos Salinas de Gortari, from 1988 to 1994. The growth of the trade deficit led to an unprecedented current account deficit of \$28.5 billion, which was financed with so-called hot money, speculative capital from pirates such as George Soros, 80% of which was placed, not in the physical economy, but in the

FIGURE 7

Mexico: grain consumption and production

(kilograms per capita)



stock market and in government bonds such as the CETES and the infamous Tesobonos. That is what collapsed in 1994.

That bubble was public debt. The CETES and Tesobonos, which were issued as supposedly internal debt, were in fact disguised foreign obligations, since about 80% of it was denominated in dollars and held by foreigners. What the Salinas government tried to hide, is that Mexico’s real foreign debt was much, much larger than what was officially admitted.

After the collapse of December 1994, there was a growing movement for a debt moratorium and for Lyndon LaRouche’s proposal for a new international monetary system. But instead of that, the IMF promoted a \$50 billion package to avoid the disintegration of the international banking system. On the IMF’s strict orders, not one dollar of this package was invested in the reactivation of the Mexican economy.

In 1995, Mexico paid \$47.3 billion in debt service of the foreign public debt, of which, \$41.4 billion, or 86.7%, were spent to cover earlier bond issues (including \$30 billion of Tesobonos), and \$6 billion went to interest and amortization payments on the foreign private debt. Those \$53 billion paid in 1995 were equal to 40% of the total official foreign debt of Mexico at the end of 1994.

Nonetheless, by December 1995 the official foreign debt of Mexico had grown from \$136.5 billion a year earlier, to \$159.1 billion—a rise of 17% in only 12 months.

One result of all of this is that the Mexican banking system is hopelessly bankrupt. The country’s financial authorities admit that 17% of the total loan portfolio held by the banks is non-performing, which means that payments are not being made on about \$15 billion in loans. For certain banks, the non-performing loans are as much as 23% of the total. In 1995, in a useless effort to bail out the banks, about \$16 billion

was poured into this sinkhole. The so-called Agreement to Help Debtors, known by its Spanish acronym ADE, in late 1995 restructured a portion of the internal debt, but already it is reported that between 25 and 47% of the restructured loans have again fallen into non-performing status.

We are today living—or rather dying—with a policy of unprecedented looting, which has brought my country to the brink of national disintegration.

The shock therapy which accompanied the IMF package produced, in 1995, a drop in GNP of an additional 7 to 10%. Between 2 and 3 million Mexicans became newly unemployed. The area under cultivation plummeted by 20%; public investment in the agricultural sector sank by 30%; and credit to the agriculture sector fell by a devastating 36%.

At the end of the first quarter of 1996, Finance Minister Guillermo Ortiz admitted that GNP had dropped another 3%.

The country is undergoing a true phase-change toward starvation.]

I would like to give you an example: the last financial package of \$50 billion, which was given to Mexico after the December 1994 crisis. This is a very good example of the decoupling of the financial process from the real economy. Because I want you to keep in mind that of the \$50 billion which was given to Mexico, Mexico never received anything; it was signed, in the Letter of Intent of the IMF, that Mexico could not use one single dollar out of this \$50 billion, to invest in the real economy. And it is a known fact, that Mexico used all this money to pay the debt; just in 12 months, Mexico paid \$53 billion, accompanied by a total catastrophe for the physical economy.

I just would like to show you the last slide, with the map of Mexico (**Map 1**). You can see the gray areas, which are recognized as areas under starvation conditions. This was recognized by the government in 1995, while the worst drought was hitting Mexico in the past 100 years. This had a great impact on the capacity of Mexico to produce food.

[Already in early 1995, the government had recognized the existence of 16 areas of chronic hunger in the country. Then the worst drought this century hit the farming areas, worsening the IMF's shock therapy. More than half of Mexico's 95 million people have sunk below the official poverty line. Half of the workforce, that is, about 19 million working-age Mexicans, are unemployed. Some of them survive with different kinds of underemployment; many million of them try to emigrate illegally across the northern border to the United States, from where thousands of illegal migrant workers are deported daily.

But the madness does not stop here.

After the IMF's Mexican model exploded, the new magic words are "domestic savings"—and the model being held up is Chile and its privatized pension system. The Mexican Congress has just approved a similar law. Yet Chile is another example of the world financial disintegration, as **Figure 8** shows: The foreign debt has grown exponentially, while the

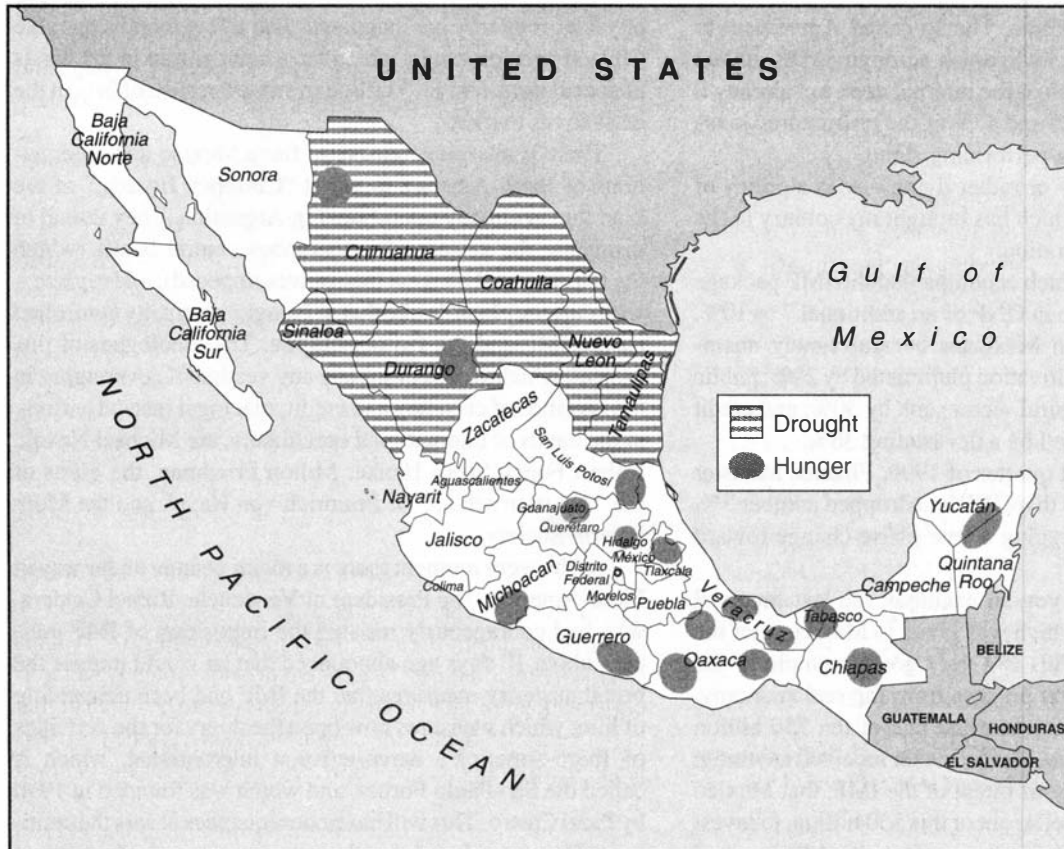
physical economy has stagnated. Just a few months ago, the Chilean pension funds, which have been placed in the hands of speculators, lost \$1.5 billion in value because of bets in the derivatives markets.

There is also an offensive to force Mexico and other nations of Ibero-America to adopt "Currency Boards," of the kind that is already operational in Argentina. They intend to dismantle the system of autonomous central banks (which the international bankers themselves imposed), and replace it with currency boards like that of Hongkong, totally controlled by the IMF and the British Empire. The ideologues of this project, which would eliminate any vestige of sovereignty in the issuance of currency and credit, placing it instead entirely in the hands of international speculators, are Michael Novak, Robert Fogel, Steve Hanke, Milton Friedman, the gurus of the "Austrian school" of Friedrich von Hayek and the Mont Pelerin Society.

At this very moment there is a major change under way in Ibero-America. The President of Venezuela, Rafael Caldera, who had courageously resisted the imposition of IMF policies, about 10 days ago announced that he would impose the brutal austerity measures that the IMF had been demanding of him, which measures now open the doors for the activities of Ibero-America's narco-terrorist international, which is called the São Paulo Forum, and which was founded in 1990 by Fidel Castro. This will have consequences across the continent. The groundwork for this new continental offensive of the São Paulo Forum is already being laid, as can be seen in the deployment of ideologues of narco-terrorism such as Régis Debray; leaders of the non-governmental organizations, or NGOs, controlled by the United Nations, such as Danielle Mitterrand (the widow of François Mitterrand); and Hollywood figures such as Oliver Stone, in the jungles of Chiapas, Mexico, where they have gone to meet and plan strategy with the synthetic, hooded guerrilla leader, Marcos.

'There is life after the death of the IMF'

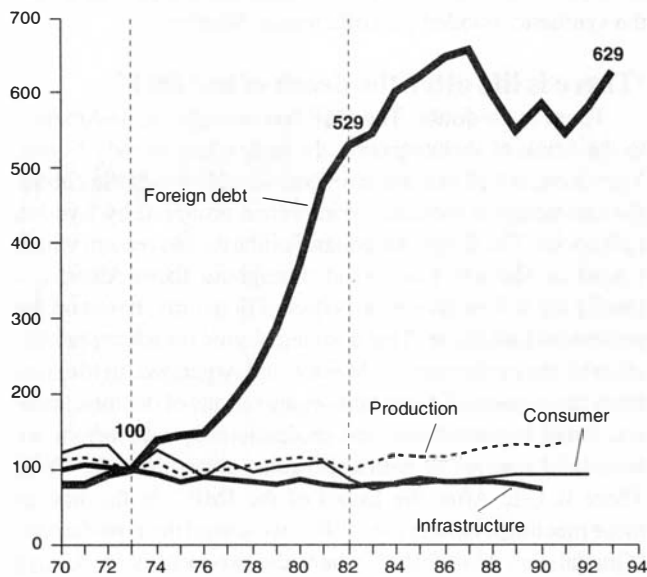
There is no doubt. The IMF has brought Ibero-America to the brink of disintegration. In fact, it has already begun. Very soon, it will become irreversible, unless we bring about the international monetary conference proposed by Lyndon LaRouche. The Ibero-American Solidarity Movement which I head in Mexico, has spread throughout Ibero-America a Draft Law to Reactivate the National Economy, based on the policies of LaRouche. That draft legislation is under consideration by the parliaments of Mexico and Argentina. In Mexico, it has the support of numerous organizations of debtors, farmers, small businessmen, and professionals, with whom we have held a series of national forums under the title: "Yes, There Is Life After the Death of the IMF." In the first of these meetings, held in June 1995, we issued the now-famous "Guadalajara Manifesto," where the proposal is made, and which I here extend to all of those present today, to try the International Monetary Fund for crimes against humanity.]



MAP 1
Hunger spreads as Mexico is hit by 100-year drought

FIGURE 8
Chile: debt versus physical economy

(indices 1973=100)



Sources: World Bank, ECLA, Central Bank of Chile.

The reason I was very happy to be with you today, and to be part of the delegation together with Lyndon LaRouche, is that I'm totally convinced that either the policies he has been proposing for the last 25 years are implemented, or nations like Mexico, Brazil, Argentina, many others in Africa, will not have any chance, any future. I will tell you that the political situation in these countries is bordering on disintegration.

I thank you very much.

Abalkin: Thank you. I give the floor to Mr. Lothar Komp, while Mr. Senchagov prepares to go next.

Lothar Komp

Mr. Komp is a member of the EIR European Economics staff. His remarks were a condensation of a longer, published report, "Germany's Physical Economy in Worst Crisis since World War II," part of which appeared in EIR's Sept. 29, 1995 issue.

Ladies and Gentlemen, I have prepared for you a very condensed review on the post-1982 decay of the German economy, once the leading exporter of high-technology capital goods in the world. So, for time reasons, I will now give you an even more condensed summary of it.

All the German economic successes, since early in the nineteenth century, were built upon the shoulders of the Classical period of Schiller, Beethoven, Wilhelm von Humboldt, and the scientific circles around Alexander von Humboldt and Carl Friedrich Gauss. In this cultural climate, Friederich List pushed forward the development of a nationwide railway system, and in the 1880s and 1890s, there were huge state investments into housing construction, sanitation, and all forms of social health infrastructure, including the introduction of the world's first nationwide, mandatory social security system.



Under the rule of globalization and the disintegrating financial system, Germany's economic

successes are being overthrown. Public infrastructure investments are being drastically cut, while the social and health systems are under massive attack.—Lothar Komp.

Today, under the rule of globalization and the disintegrating financial system, all these roots are neglected and overthrown. Public infrastructure investments are being drastically cut. The German social and health systems, still among the best in the world, are under massive attack. The German banking sector has undergone a transformation towards short-term, speculative profit, which can be seen, in particular, in the case of Deutsche Bank after the murder of Alfred Herrhausen. The new Deutsche Bank chairman, Hilmar Kopper, describes this as a cultural revolution and the establishment of an Anglo-Saxon banking and management culture. The Humboldt education system was finally removed during the 1970s, and the more radical streamlining of education is in preparation. This has already turned large parts of the younger generation into irrational people, who perceive any type of technological progress as their enemy number one.

Now, what are the consequences? I will show you some slides.

In only four years, about 3 million industrial jobs were cancelled in the German economy (Figure 1). After the rejection of the LaRouche program of the Productive Triangle, eastern Germany was transformed from an industrialized

country into a developing country, which is no longer able to produce what it consumes. Eastern German consumption of goods and services is about DM 470 billion per year, and DM 210 out of this have to be imported, mainly from western Germany. If you take the eastern German economy as one economy, it has one of the biggest trade deficits in the world, comparable to that of the United States, which has, of course, a population 15 times higher. If you compare what is left over from industrial production with the requirements of the Morgenthau Plan, you see a lot of similarities. What has happened here is one of the fastest deindustrialization processes in peacetime, ever. Eastern Germany has about 20% of the German population, and its share in the German export is 1.7%; 98.3% of German exports come out of western Germany.

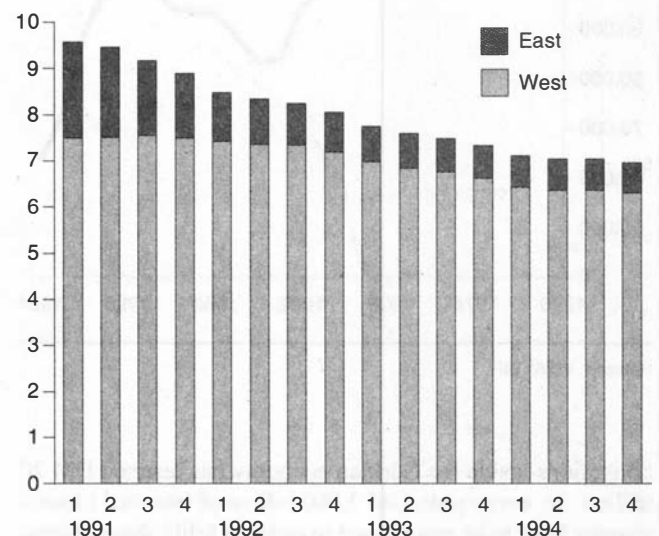
All the western German high-tech sectors are in an existential crisis, where, here in the case of the aerospace industry, you can see that, in the 1990s, about 40% of all jobs were cancelled (Figure 2).

Here, the same in machine tools: 40% of the jobs wiped out, in only five years (Figure 3).

It is similar in the chemicals industry (Figure 4). This obviously resulted in a huge wave of bankruptcies, which is only the beginning; everybody expects this to be much higher in the years 1996 and 1997. And, the unemployment in Germany has already reached new, record highs for the postwar period.

So now, very briefly, some financial aspects. The interest rate payments are now becoming one of the primary activities of the German economy. The total volume of mutual financial

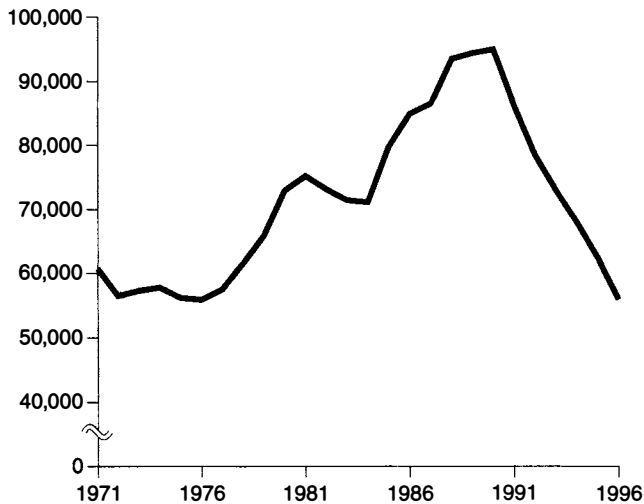
FIGURE 1
Industrial jobs in Germany
(millions)



Sources: German Federal Statistical Office; EIR.

FIGURE 2

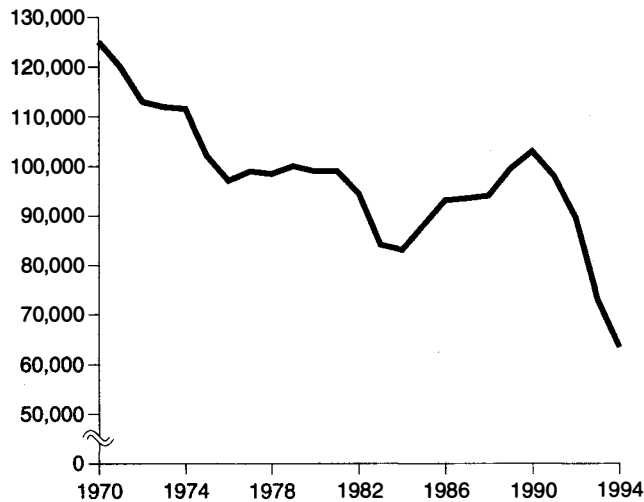
Employment in the German aerospace sector
(number of jobs)



Sources: BDLI; EIR.

FIGURE 3

Employment in western German machine tool sector
(number of jobs)

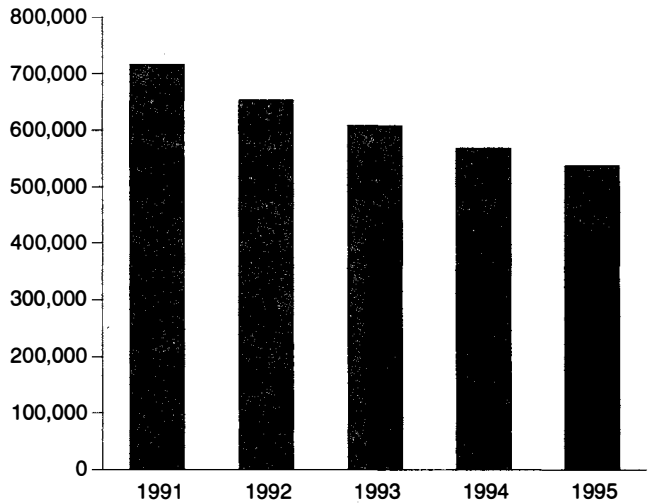


Sources: VDW; EIR.

obligations inside the German economy has reached DM 20 trillion. So, every year, DM 1,000 billion of financial income streams have to be maintained in order to fulfill these obligations. This volume has doubled in only six years (**Figure 5**). Productive investments are declining.

FIGURE 4

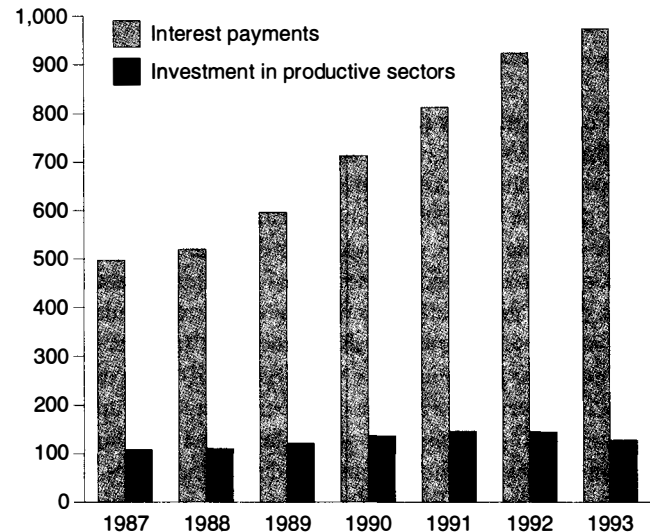
Employment in German chemical industry
(average number of jobs)



Sources: VCI; EIR.

FIGURE 5

Interest payments versus productive investment
(billions of deutschemarks)

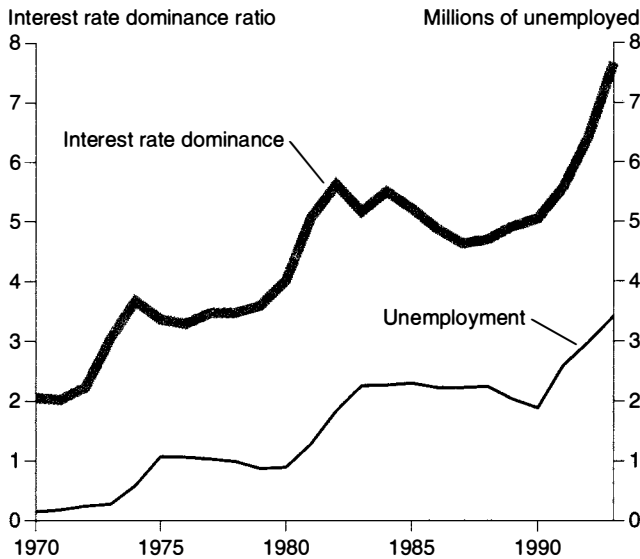


Sources: German Federal Statistical Office; EIR.

Here you can see this dominance of financial asset streams over productive investments, in the form of shocks, which are related to shocks in the international financial system, and are simultaneous with shocks in the rise of German unemployment (**Figure 6**).

FIGURE 6

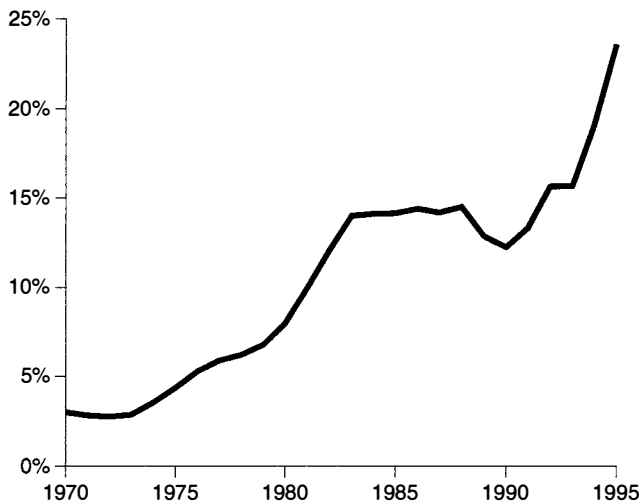
Interest rate dominance ratio* compared to unemployment



*Interest rate dominance ratio = $\frac{\text{interest payments}}{\text{capital investment in productive sector}}$
 Sources: German Federal Statistical Office; EIR.

FIGURE 7

Federal German interest payments, as a percentage of federal tax revenues



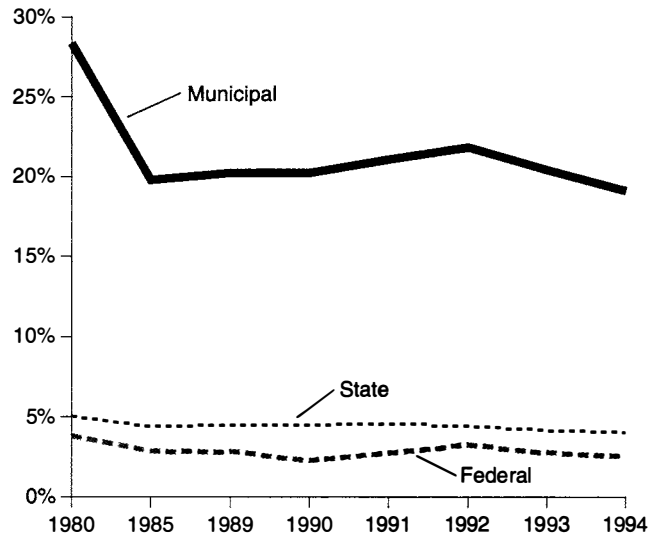
Sources: German Ministry of Finance; EIR.

A bigger and bigger share of the German tax revenues, therefore, goes for interest rate payments; it's now something like 24% of the whole income (Figure 7).

At the same time, due to the Maastricht budget-cutting

FIGURE 8

German public construction investment as a percentage of total public investment



Sources: German Federal Statistical Office; EIR.

mania, public infrastructure investments are decreasing very fast, especially in the case of the municipalities (Figure 8).

So, in conclusion, we can say that, without the reorganization of the global financial system and the establishment of a Eurasian infrastructure program of great construction programs on a Eurasian scale, there is no hope for the German economy.

Thank you.

Abalkin: Thank you. Vyacheslav Senchagov has the floor.

Vyacheslav Senchagov

Mr. Senchagov is the director of the Banking and Financial Policy Center at the Institute of Economics, Russian Academy of Sciences.

Esteemed colleagues! I think that discussion of Mr. LaRouche's report is of great theoretical, as well as practical interest. I would like to dwell upon the very complex, and still not fully clarified theoretical question of the relationship and interaction of the physical economy and finance. For a long time, it seemed to us that the West had actually achieved an optimal relationship between the physical and the financial aspects of the economy. Certainly, they saw the active role of finance and credit in economic development. But the data provided by Mr. LaRouche indicate that all is not well there.

I would name another indicator, which, it seems to me, in

a generalized form gives some idea about the violation of this optimal relationship. This is the off-balance-sheet liabilities in the banking system, in the U.S.A. and in other countries. At the end of the 1980s, off-balance-sheet liabilities were already double what the banks had on their balance sheets. Off-balance-sheet liabilities had reached the level of \$6 trillion, while the balance sheets showed \$3 trillion. Specialists estimate that today, the off-balance-sheet liabilities are even more out of correspondence; they exceed what is on the balance sheets by an even higher ratio. I cannot expand on this



Here's the point: to enter the world system or not, and if we enter, what do we bring to it? I believe that

Russia has something to bring in.

—Vyacheslav Senchagov

idea now, but I will just say that off-balance-sheet liabilities are liabilities, which don't count as banking activity, proper.

The fact that off-balance-sheet liabilities exceed what is on the balance sheets, is evidence of a balance crisis, and of the fact that a significant part of financial flows is out of control. It also shows, that many such flows are not backed up by any physical commodities.

If we examine our economy, the economy of the U.S.S.R. and Russia, we have to take note that here, too, there was no optimal relationship between the physical economy and finances. Management solely by financial instruments, in 1921-1928, even with a strong gold-backed currency, was not adequate to solve the problem of concentrating banking and private resources on strategic tasks. This model failed, not because of the evil intentions of Stalin, but because the model itself was not well refined.

At that point, there was a shift to a completely different model, based on the priority of physical, material balances, physical indicators, and so forth. In its pure form, we can say that this line also failed to be very promising, historically. But in the best period of its development, i.e., from 1965 to 1970, when reforms provided a better correspondence between the physical and financial indicators, it seems to me that this system reached its apogee precisely in that period. All subsequent attempts to strengthen the financial and credit levers, *violated* the overall balance.

If we take the situation today: A one-sided orientation towards financial and credit instruments, first of all, has led to a big collapse, to an effective suppression of the physical, material side—of the entire physical volume in the economy. Secondly, it has led to a collapse of employment, and an irrational utilization of labor resources. Third, it has created an unnecessary polarization of income.

The 'art' of economic and financial policy

Therefore, there is a basis for choosing to return to physical economic parameters. But this would be incorrect. Historically, it would be a big mistake. In this regard, I think it is possible very carefully to determine the correct proportions; this is the art of economic and financial policy.

I see one of the roots of a solution for this problem, as being a new approach to setting currency rates; and, on the basis of this, the recreation of the banking system; and, the creation of a good budget mechanism. I shall just mention the basic elements: First, the construction of a total, consolidated balance of the basic assets of all firms. The principle used should be the computation of current value, and certain other principles. This will permit the definition of a strong material base for the currency. Secondly, there should be an assessment of those components of wealth and the strength of the currency, which are not taken into account today. They are not part of financial turnover. This refers to economic minerals, which are properly valued at \$27 trillion; of course, this should be recalculated at a more realistic currency exchange rate, but there is no question, that this figure is fairly commensurate with the levels of imports we receive. That is, it will, of course, far exceed our imports.

The weakness of our currency, is chiefly due to the fact that we have not created a strong agriculture sector. Thus, we have to purchase a lot. We have a strong currency—in oil, gas, gold, other resources. On the basis of correct economic estimates and the development of appropriate mechanisms, it should be possible to create the real financial and credit possibilities for an upswing in all sectors of manufacturing.

On this point, not everything is totally clear to me, and I would not give a unilateral endorsement of the presentation by Professor Korolyov, whom I respect very highly, to the effect that Russia should create, in some sense, its own system, a closed financial and monetary system. [Murmuring in the hall.] Perhaps I am exaggerating what he said, somewhat, but—maybe just a little bit.

But here's the point: to enter the world system or not, and if we enter, what do we bring to it? I believe that Russia *has* something to bring in. Russia has a lot, but it is true that we do not have statesmen experienced in the financial realm, with the proper training for the present day. But Russia does have resources. It does not have managerial experience. But these are matters for negotiations, from the standpoint of recognizing each other's strength. The U.S.A., Russia, China—I think that is approximately the scheme.

In conclusion, I would like to say that the trouble with the situation we are in, is that—although this may have been appropriate, at a certain stage of things—our education in economics overrated the physical, material approach, so that we did not create an adequate cadre of specialists in credit and finance. Today, the young generation scores high marks for individual financial business operations, but is very weak, when it comes to the financial operations of the state. If we had a general education program in this respect, which would avoid any extreme approaches, I think it would be possible to talk about creating a new banking system, as well as the Russian ruble's entry into the international community of currencies. Thank you for your attention.

Abalkin: Thank you. I give the floor to Mr. Tennenbaum. Mr. Pavlov will be next.

Jonathan Tennenbaum

Dr. Jonathan Tennenbaum of the Schiller Institute is the author of numerous elaborations of large-scale infrastructural development programs, including the "European Productive Triangle" proposal in 1990 and the Eurasian land-bridge concept. He is the director of the Fusion Energy Forum in Germany. Portions in brackets were in the written text of his speech, but were not delivered orally.

Thank you very much.

Over the last 12 months, a number of institutions and organizations in Russia have put forward programs for "anti-crisis measures," to save Russia from the catastrophe which has resulted from the so-called reform policies, promoted and enforced by the International Monetary Fund (IMF). I do not want to talk here about the specific features of the various "anti-crisis" programs; I think, however, that there is a clear tendency emerging, in the direction of a conception of national-economic recovery of Russia, which would include the following ideas:

1. The process of collapse of agriculture and industrial production, physical infrastructure, public health and education, and the loss of in-depth scientific and technological potentials, must be reversed, *immediately*, through dirigistic actions by the state. This *must* be done, because if it is not done, then the continuation of the collapse process will mean the irreversible loss of Russia's sovereignty, national security, and even its physical basis of existence.

2. Russia's history and culture have unique features, which obviously must be taken into account in designing any effective policy for overcoming the present crisis. On the other hand, the kinds of measures which the Russian government take today, in order to restore production and rebuild the economy, do not require the invention of something fundamentally new. The history of industrial nation-states, such as France, Germany, and the United States, provides many

relevant points of reference. These include, for example, the "dirigistic" methods employed by President Franklin Roosevelt, to end the "Great Depression" of the 1930s in the United States, as well as the policies which guided the successful postwar reconstruction of France (under de Gaulle), Germany, and Japan.

3. In this context it is crucial to emphasize, that the rise of those nations to industrial power, and their recovery after wars and depressions, were always based on policies of "national economy," directly opposed to the monetarism and globalist "free market" and "free trade" dogmas preached by the IMF today. Those policies, associated historically with the names of Leibniz, Alexander Hamilton, Friedrich List, and Henry Carey, as well as Dmitri Mendeleev and Sergei Witte in Russia, emphasize the crucial role of the state, in

i) regulating the essential monetary and credit functions of the economy, including ensuring sufficient flows of credit for expansion of the productive base of the economy (the latter being most effectively accomplished by "Hamiltonian" methods of credit generation by national banks);

ii) providing measures of protection, price regulation (parity prices) and tax structure, which ensure an all-sided development of the nation's productive powers;

iii) maintaining and developing basic physical infrastructure (transport, energy, water, communications), by means including state financing of large-scale infrastructure projects;

iv) providing for universal education of the young, and for essential sanitation and health care services;

v) promoting rapid scientific and technological progress.

These principles of national economy provide the basis for defining the kinds of measures required, short- and medium-term measures, needed to reverse the collapse of Russia's physical economy in the present, concrete situation. This is exactly what is done in several of the "anti-crisis" programs I have seen, which rightly emphasize such measures as: (i) Re-establishing control over the financial system and the main direction of investment flows [(including stopping capital flight and crushing the uncontrolled criminal element)]. (ii) Protectionist measures and price regulation, to stimulate domestic production and consumption of the most essential agricultural and industrial goods. (iii) Large-scale government investments in modernization of infrastructure, industry and agriculture. [(iv) Increasing the purchasing-power of the poorer majority of the population, while taxing excessive, speculative incomes and certain categories of exports,] and so on.

Two possible outcomes

Now, I think there is no doubt, that the kinds of national-economic measures, which I have just sketched, are absolutely *necessary* for a successful economic recovery of the country. However (and this is the main point I wish to make today), national economic methods by themselves are not *sufficient* in the present context. In fact, as far as I have seen,

the proposals for “anti-crisis measures,” [which have been published by various institutions and organizations in Russia during the recent period,] fail to adequately take account of the relationship between events in Russia, and the processes occurring within the world as a whole. This point has already been addressed by Mr. LaRouche, but it is of such importance, that I shall try to summarize it in the most condensed possible form.

The present period of crisis has two possible outcomes.

In the first case, assume that no effective action is taken, by the United States and some combination of nations, to



The decisive factor determining the outcome of a national-economic recovery program

in Russia, is Russia's contribution to a successful reorganization of the world financial and monetary system as a whole.

—Jonathan Tennenbaum

reorganize the world monetary and financial system. This situation would inevitably lead, after a (probably very short) period of accelerated, “hyper-looting” of the world's population and physical economy, to a final, chaotic disintegration of the entire world financial system. Let us call this alternative “Condition A.”

In the second case, let us suppose that, as the outcome of negotiations between the governments of the United States, Russia, China, and other nations, a reorganization of the world financial system, along the lines defined by Mr. LaRouche, is carried out in the immediate future, and that gigantic bubble of financial securities, not backed up by real values, will come to an end. This will create a qualitatively new situation in the world. Let us call that “Condition B.” My essential assertion is the following:

Under “Condition A,” any attempt to carry out a national-economic recovery in Russia is *doomed to fail*. Russia will be destroyed, along with virtually every other nation on the face of the Earth.

On the other hand, if Russia were to take part in bringing about “Condition B,” then a well-designed mobilization for

national-economic recovery in Russia would *not only succeed*, but would produce a far better result, than could be hoped for under any other conceivable condition.

In other words, the decisive factor [or “boundary condition”] determining the outcome of a national-economic recovery program in Russia, is Russia's contribution to a successful reorganization of the world financial and monetary system as a whole.

In this connection, the following remarks are relevant:

1. The economic disaster brought on by the liberal reforms in Russia, is by no means an internal failure of Russia. Rather, the process of looting and collapse of the Russian economy is an integral part of the collapse dynamic of the world financial system as a whole.

2. This looting of Russia is not something imposed *only* from the outside. If we examine the origin of the legal, quasi-legal, and criminal networks involved in such things as capital flight, dollarization, looting and smuggling of raw materials and other products, the speculative asset-stripping of companies in connection with “privatization,” and so on—then we inevitably discover, at the top level, an intimate relationship between portions of the *Nomenklatura* of the Soviet period, and high-level circles of Anglo-American finance, which can be traced back much, much further than the beginning of “*perestroika*.” It is relevant, in this context, to mention such names as Armand Hammer, [Robert Maxwell,] and Marc Rich, for example.

3. Thus, the so-called mafiazation or criminalization of the Russian economy is a process going (primarily) from the top down, from the global to the national scale, and not from the bottom up. There should therefore be no illusion about the fact, that to break the power of the criminal mafias in Russia—a step which is a precondition for carrying out a national economic recovery—means that you are in reality confronting a *global power*, namely the power of the London-centered financial system itself.

4. At the same time, the continuation of the cancerous process within the financial system, as described by LaRouche, will “drive” further, rapid escalation of the pressures placed on the Russian economy—pressures which are “leveraged” through Russia's growing dependence on massive imports of food and other products, its dependence on exporting raw materials to the world market, and the demands of the domestic “mafia” structures whose activities are interconnected with the speculative bubble in the world economy as a whole. Furthermore, not only the IMF, as is obvious today, but the entire apparatus of the United Nations has been transformed into a police apparatus for managing a genocidal, “hyper-looting” process against the physical economies of Russia and every other of the world's nations. Under these conditions, the possibility of a national-economic recovery of Russia is zero.

[5. A final, uncontrolled collapse of the world financial system, which is inevitable under “Condition A,” would by

itself not produce an improvement in the situation; at that point, unless governments would succeed, by immediate, emergency actions, to install a new financial and monetary system, the world would be plunged into a chaotic “dark age” characterized by the total breakdown of trade and essential economic functions, the explosion of every type of regional and ethnic conflicts, famine and epidemics. Russia, and most other nations, would quickly cease to exist.]

Prospects under a new financial system

Let us now consider the more pleasant case, where a reorganization of the world financial and monetary system is carried out by agreement between a combination of powers, including the United States, Russia, and possibly China, and others. In the language of Riemannian physics, the transformation from “A” to “B” defines a *phase change* for the world as a whole, as well as—implicitly—a change in every process occurring anywhere in the world. It will define the strategic, political and economic geometry of the twenty-first century.

That is the most important point. In my paper, I present some ideas about the recovery of the Russian economy, in the “B” geometry. This entails new infrastructure programs, the Eurasian land-bridge connecting Russia with South and East Asia. I also develop the role of high technology, space exploration, and so forth. These points are already there in LaRouche’s “Memorandum on Prospects for Russian Economic Recovery.”

[The creation of such favorable “boundary conditions” for a national economic recovery of Russia, have important strategic implications for the optimal form of the recovery program itself. For time reasons I must limit myself to a few summary indications. Let us first look for a minute into the future of a world economy expanding rapidly under the regime of a new financial system. Here, the key feature of the new financial and monetary system, is to remove the cancerous burden of unpayable debt and speculation, to provide—through the credit-generating mechanism of “Hamiltonian national banking”—large volumes of long-term, low-interest credit for all categories of infrastructure, agro-industrial and high-technology development.

1. Russia has a unique economical-geographical position, as the bridge between Europe and Asia. In the early twenty-first century, the “center of gravity” of the world economy—the region of greatest and most intense economic activity—will be located in Southern and Eastern Asia, on the Pacific and Indian Ocean basins, where China and India together constitute over 2 billion persons. The result from the development of those nations and the adjacent regions in the early twenty-first century cannot be maintained without the large-scale use of “space-age technologies”—including controlled nuclear fusion, laser and particle beam technology, superconducting technologies and revolutionary biophysical methods of agriculture and medicine. On the other hand, those same nations are characterized today by an extremely low average level of

education and of technology. For example, although China made a notable contribution to the development of technology in earlier periods, China played essentially no role at all in the explosion of modern science, which followed the fifteenth-century Golden Renaissance in Europe. Russia, on the other hand, in spite of terrible problems and initial disadvantages, has had a rather rich experience of scientific and technological development, stretching from the period of Leibniz’s collaboration with Peter the Great, up to the point of becoming a scientific and technological superpower in the postwar period. Looking at Russia from the standpoint of China’s most urgent economic and cultural requirements, we recognize, that Russia is destined to function—as it did for a brief period in the 1950s—as a chief transmitter of science and technology to China. Similar considerations hold for India and Russia’s other neighbors to the south. Concretely, this would translate into a huge market for high-technology capital-goods exports from Russia (as well as from western and central Europe, via Russia), into southern and eastern Asia.

2. The developments indicated above, lead inevitably to a rapidly increasing role of the land transport routes linking Asia and Europe—the so-called “Eurasian Bridges,” which include the Northern Route provided by the Trans-Siberian railroad; and the “Second Bridge,” whose final link was completed about five years ago, running from the eastern coast of China, through Sinkiang and Kazakhstan, and then northward through Moscow to the Atlantic coast of Europe. Actually, we are talking about the evolution of an entire Eurasian railroad network, including also a southern network linking Southeast Asia to India, Pakistan, Afghanistan, the Central Asian republics, Iran and Iraq, and running through the Near East into Africa and through the Balkan States into Central Europe.

3. The positive economic impact of such a Eurasian railroad system can be multiplied many times over, if we transform the regions along the railroads into what we have called “infrastructure development corridors.” This means building up, within the strip of land located 50-70 kilometers on either side of the main rail lines, systems for modern transport, energy, water, and communication, new, modern urban population centers and agro-industrial complexes. Here, the most advanced technologies must be used: nuclear energy (fission, later fusion), use of hydrogen and other synthetic fuels, magnetic levitation transport systems, etc. Under such conditions, development of the system of Eurasian “infrastructure corridors,” with its branches and “capillaries,” becomes the most efficient single means for transmission of science and technology to the under-developed areas of Eurasia—including parts of Siberia itself. For reasons connected with the so-called “density functions” of Physical Economy, the increase of density of population and economic activity within such “corridors” leads to an increase in the physical efficiency of the economic process itself.

4. This type of “dense corridor” development is also uniquely suited to the special requirements of Russia’s own

economic reconstruction. Here a great problem is posed by the low population densities and extremely long transport distances, especially in the Asia part of Russia. On the one hand, Russia urgently requires a thorough modernization of its basic infrastructure. On the other hand, the efficiency of basic infrastructure investments (including transport, energy, water, communications as well as health and educational infrastructure) increases rapidly with the increase in the density of population and economic activity. Thus, the use of large-scale, state-financed infrastructure projects to revive the Russian economy, should emphasize the Eurasian development corridors, which, at the same time, will play a great role in the growth of capital-goods exports to the Southern and East Asian countries.

5. "Infrastructure corridor" development of this type also provides optimum conditions for the conversion of military industries, on the basis of long-term contracts for supply of essential equipment and new technology.

6. Besides large projects for modernization of infrastructure (including housing), the second, most essential element which must be included, is an expansion of the manned space effort, beyond even the dimensions of the former Soviet period. The central focus of this must be a long-term program, in cooperation with the United States and other countries, to establish a permanent "science city" on the surface of Mars, within the next forty years. This is not an extravagant luxury, but a matter of survival for Russia and the human race as a whole. As a result of the combined effects of anti-science, environmentalist and "post-industrial" policies, and the collapse of real investment into high-quality education and research, we have created a situation in which most of the world's remaining scientists are either not working at all, or are spending most of their time doing computer simulations. If we continue this much longer, then we will soon find that we have lost our scientific capability, because our scientists have gone insane. To relaunch fundamental scientific and technological progress, and restore the vitality of human civilization, we must take people away from their computer screens and put them back into the laboratories and projects, to uncover the anomalies of the real universe. A large, manned space program is today actually the cheapest, most effective means to generate the high rate of breakthroughs in science and technology, upon which any healthy economy must be based.]

Abalkin: I give the floor to Valentin Pavlov, whose titles I mentioned earlier. Professor Muranivsky will be next.

Valentin Pavlov

Valentin Pavlov is the former finance minister of the U.S.S.R. (1989-91) and former prime minister (1991).

I shall give my views of the question under discussion,

and I excuse myself in advance, if they do not coincide with everything that has been presented here today.

First of all, it seems to me unquestionably the case, that Mr. LaRouche is proceeding from the current situation in the development of the global economy as a single whole. I am very impressed by his approach, of viewing the problems of individual countries as parts of a general problem. I personally agree with him, that in the framework of the overall maturing of the crisis, the manifestations of that crisis can be artificially directed, if you will, along meridians or parallels, into individual countries, by specific means.



The entire system existing today, has been, to a significant extent, imposed on Russia—and it was imposed

with the aid of television. I think that posing such questions for discussion at this round table on economic policy, is one of the ways of breaking through that black box.—Valentin Pavlov

In a given instance, what Mrs. Carrasco presented about Mexico, concerns Mexico; what is happening in Russia, concerns Russia. But these are, essentially, manifestations of a general crisis situation, in the framework of which—I would put it this way—the main orchestrators, who are upholding, so to speak, their own vision of the problem and their own outlook for the future, are able to derive proofs of the effectiveness of the system existing today, by pointing to the achievement of a high standard of living—while real productive forces are in decline—in the United States and some other countries. In this case, the crisis is like a chemical solution, the concentration of which is simply approaching the critical point. That is what happened in Mexico, and we are witnessing the development of this situation in Russia.

I would view this idea of Mr. LaRouche's, today, as an early warning system for global economic crisis; because it may be possible to shift the crisis in the direction of Mexico today, Russia tomorrow, China the day after tomorrow, but the lawful nature of the process, as such, still comes to its end.

Sooner or later, these crisis symptoms will appear on a mass scale, as we have already begun to see, for example, in today's presentation on Germany. They will affect the United States itself, as well—the main base of the International Monetary Fund.

I also believe that it is of great importance for Russia, how Mr. LaRouche looks at the entire problem; not only the coherence of the financial sector with the productive sector of the economy, but also, processes within the financial sector. Using the information we have available in our own country, I would say that it shows that the entire conduct of economic policy, which is also seen upon examining specific problems, is an approach that, I would say, has come to a breaking point, above all with respect to the financial sector of the economy. This is most apparent in the fact that the government of the Russian Federation, with the tacit approval of the IMF, proposes to consider the restraint of inflation as its major achievement, forgetting that inflation can be measured with various instruments. Today, it is proposed that we measure the suppression of inflation, by the fact that the rate of the ruble has ceased to fall.

One way to measure inflation

If it is permissible before this audience, I shall allow myself to depart somewhat from an academic approach. At least the Russian part of the audience recalls very well, that under Soviet power, the rate of inflation was measured by the queues, the length of the queues. Today, I would propose just as successfully to measure inflation by the level of wages not paid. This is not to mention the other side of the problem, namely that today, we are all confronted with a system, under which real value—from the standpoint of the real sector of the economy, the basic enterprises of the Russian Federation—has been redefined to an unbelievably low level. If we are willing to assess one of our oil companies at \$150 million, that right there, expresses the level of inflation that really exists, at least in the productive sector.

We have our numerous candidates for various posts and positions, but these days they all begin by boasting about what big capital they have. But they keep quiet, in shame, about the fact that this capital was created by buying up vouchers. This is, at the State level, a classic form of inflation: the real devaluation of real facilities. Therefore, when we discuss these problems today, for me personally, this question of the coherence of the financial and the real sectors of the economy, and the coherence of instruments acting *within* the financial sector, is extremely fundamental.

In this sense, when such a global problem is under consideration, I think that the historical experience both of the United States and of the Soviet Union, and now Russia, demonstrates, above all, that it is impossible to solve this problem without State intervention. Today, the mechanism for development of the relationship between the financial sector and the real economy is neglected. This means, that the patient

has fallen ill. If there is not some external intervention by a doctor, the disease will end as is its wont—a fatal outcome. Here again, world experience demonstrates this, including the experience of the Soviet Union, the United States, and Germany. And it seems to me, that we should not separate the prescriptions that are appropriate for curing individual parts of the organism—if only because today, we view the economy of any single country, as a part of the world economy. One cannot seek a medicine for just the local ailment. To undergo treatment in isolation would mean to fall out of the common international division of labor. Something like that, generally speaking, happened with the Soviet Union.

If we turn to the international aspect of this problem, it was always propagandized in the framework of the UN, as “development with reliance on national resources.” The IMF, in turn, always liked to go hunting for “internal financial sources for development.” I think they have retained these habits.

But I think that approaching the financial sector as a single whole is of fundamental and practical importance for Russia today. The elimination of the government from the drafting of real reform decisions is, in my view, quite irresponsible.

I would like to express my viewpoint on one other aspect of this problem. Mr. LaRouche devoted, in my view, *very scant* attention to the question of the television set. The entire system existing today, has been, to a significant extent, *imposed* on Russia—and it was imposed with the aid of television. I think that posing such questions for discussion at this round table on economic policy, is one of the ways of breaking through that black box. Unfortunately, this TV mania not only influences the masses of ordinary voters, which the politicians have to take into account, like it or not, but also the politicians themselves. I hope that, among our candidates for President, there will also be people, who find in themselves the knowledge and strength to tear themselves away from assigned schemes and create their own. I personally wish Mr. LaRouche success in this fight.

Thank you for your attention.

Abalkin: I give the floor to Taras Vasilyevich Muranivsky, and I implore him to be very concise.

Taras V. Muranivsky

Professor Muranivsky is the president of the Schiller Institute for Science and Culture in Moscow.

I shall be very brief, and I shall dwell on another aspect of this issue—an academic one. We are discussing the problem of Russian reforms, but we are trying to view it through the scientific prism, developed by Mr. LaRouche and some other foreign researchers. It seems to me, that the strength of LaRouche's conception and of physical economy as a theory, is that it is highly scientific. It is not by chance, that he calls

it *the science* of physical economy, and that the books and articles we have translated are based on the achievements of philosophy, mathematics, geometry, physics, and other sciences; because, in his view, economics is just as much one of the natural sciences as these others are.

I think that Academician Landau's joke was very true, when he divided the sciences not into natural science and the humanities, but into natural and unnatural sciences. Recently I received a call from a member of the Academy of Sciences,



The “post-industrial society” utopianism, promoted by Russian economists,

distracts attention from the productive forces of society, and overemphasizes the importance of the service sector.

—Taras Muranivsky

a doctor of physical and mathematical sciences whose name I don't wish to mention, who asked me, after having read LaRouche's works: “Maybe there's something here I don't understand. Perhaps there is some eclecticism here.” I answered that, in order to understand what eclecticism is today, one must take a look at recent issues of *Voprosy Filosofii*, as well as—forgive me, Leonid Ivanovich—*Voprosy Ekonomiki*. When we began to be allowed to use theories other than Marxism, we began to use all of them, indiscriminately.

LaRouche's physical economy, meanwhile, traces a very precise, clear line from Plato, through Nicolaus of Cusa, then Leonardo da Vinci, Leibniz, Alexander Hamilton, Mathew and Henry Carey, Friedrich List, which encompasses our scientists such as Mendeleev, Witte, and Vernadsky. Throughout, this theory is counterposed to empiricism, nominalism, and so forth.

In my limited time, I would like to state literally three or four theses, which provide the conceptual basis for overcoming the crisis, by which we are more and more surrounded.

First: A continued policy of individualistic liberalism will lead to a deepening of the crisis and to the further spiritual and moral disintegration of society.

Second: The extreme exaggeration of the role of moneta-

rist methods, in attempts to overcome the crisis, will lead to a prolonged collapse of production and the dysfunction of the financial and credit system itself. The disease is the same, as identified by Mr. LaRouche and Dr. Tennenbaum for the world economy, and by Dr. Senchagov for the Russian economy. It is what the French economist Maurice Allais called tumors, financial bubbles, on the living body of the economy.

Third: The “post-industrial society” utopianism, promoted by Russian economists, distracts attention from the productive forces of society, and wrongly overemphasizes the importance of the service sector. Taking the example of the United States, I could cite not only the evaluations of scientists and politicians such as LaRouche or [Senator] Edward Kennedy, but also the *proponents* of that pseudo-conception—“post-industrial society”—when they talk about the transformation of American into one big casino, living at the expense of other countries of the world. And we try to portray this as a good development!

Fourth: Continuation of the previous privatization policy will yield nothing but disaster. Marivilia Carrasco told us a lot about Mexico, but she omitted one very important thing: that in Mexico, there are forums taking place, which have become a regular institution, with participation from throughout Latin America, under the title, “There Is Life after the Death of the International Monetary Fund.” And when Leonid Ivanovich [Abalkin], in one of his articles once, wrote that Presidents and governments should wash their hands of the question of forms of property ownership—whether private, or state—and should not get involved in that, I completely agree with him.

The last point, is that we are served very poorly by pseudo-scientific ecologism, or environmentalism. This activity is aimed straight at the destruction of the country's electric power system.

We should think about these problems and, armed with truly scientific methods, we can do something to solve them in our country. If I have gone over my time limit, it is only because of the time required for translation.

Abalkin: Esteemed colleagues, I have notes from four more participants in the round table. I think that each of them should get the floor. I repeat that the materials will be available in the record. I give the floor to Yelena Nikolayevna Viduta.

Yelena N. Viduta

Yelena Viduta is with the Plekhanov Russian Economic Academy.

Mr. LaRouche, I would like to thank you again for being so attentive, not only to the fate of the world community, but specifically to the fate of our country. I am very pleased, today, to see you not only in the company of those who welcomed you at the State Duma last year, but to see here Leonid

Ivanovich Abalkin, who enjoys great authority, not only among economists, but also among politicians; and it seems to me, that this cooperation will expand, which will benefit our country, as well as the whole world.

I can endorse completely, what Dr. Tennenbaum said today. He is a representative of another country, the United States, but what he stated regarding the principles of national economy, is, I think, unquestionably applicable to our situation. Specifically: Without a doubt, we need protectionism;



Without a doubt, we need protectionism; state regulation of the economy; and to turn our attention, today,

not merely to the redivision of property ownership.

—Yelena Viduta

state regulation of the economy; and to turn our attention, today, not merely to the redivision of property ownership. Unfortunately, many parties of the left and the right are fixated on this question of the redistribution of property. But today, priority attention should be given to state regulation of the economy, and coordination.

I was very pleased when Dr. Tennenbaum came recently, with [Michael] Liebig from Germany, and they focussed first and foremost on the question of productive investment, defining this as the main task for our state. It is clear that credit and financial policy in the framework of our state, should be subordinated to this main task of stimulating productive investment.

Now, something on the international financial system. Unfortunately, I cannot agree with the viewpoint of Mr. Koro-lyov, who holds that what happened in 1945 was an attempt to return to the system that had prevailed in the 1930s. The point is that there was an attempt to achieve balance in international trade through measures based on classical economic theory. But then, after the intervention of Mr. Keynes, it became clear that the main factor upsetting the equilibrium was the growth of each country's national income, rather than the fluctuation of prices. The question on the agenda was rather more serious: how to stabilize international trade relations, after 1945.

It is understood, that any country making recommendations to the coordinating bodies of the International Monetary Fund, attempts to uphold its own interests. And it is quite clear, today, that the IMF defends the existing strategy of international financial relations, because this is the most advantageous for the wealthiest country—the United States. So it is very good that there are people in the United States like LaRouche, who rise above national problems, and become major geopoliticians; he has, I think, established absolutely new coordinates for international financial relations, for the world economy.

In my view, the main task that a new regulatory body will face—and it may also be called the International Monetary Fund—will be to stimulate and promote productive investment in all countries. It may be that this new International Monetary Fund will have to announce a debt moratorium for each country. And perhaps it really will be sufficient to have one single monetary unit for the whole world, like the SDR [Special Drawing Rights]; in determining the value of this unit, the weight of each country will have to be taken into account, from the standpoint of the growth of the real purchasing power of national currencies, which will be chiefly determined by the rate of growth of production of consumer goods in each country. Of course, all of this will need to be brought into correspondence with the growth of the money supply in each country.

And it seems to me—this is just my personal wish—that the interaction of such major political figures as Lyndon LaRouche and Leonid Abalkin should not be limited to round table discussions, but that they might proceed to make some joint, constructive statements, the essence of which would be understandable for the leaders of both the U.S.A. and Russia.

Abalkin: Thank you. Zabrodotsky, Yuri Nikolayevich, president of the “New Thinking” Academy. Next will be Koryagina.

Yuri Zabrodotsky

Mr. Zabrodotsky is president of the Novoye Myshleniye Academy.

In order to be as concise as possible, I have sketched a diagram; but insofar as most people won't be able to see it, I can demonstrate this simple scheme with the five fingers of one hand.

A short preface to that: No measures for solving various problems of development will yield any result, in my view, as long as the proposed solutions lie outside the solution of the fundamental contradiction of civilization. I would define the main contradiction of civilization, as the contradiction between all known modes of production, and the modes of life. Another phrase on this: What defines the qualitative essence of a mode of life? The qualitative essence of any mode

of life is defined by the principle, according to which the natural product is appropriated—whether by the cancer cell’s principle, of taking more than one gives, or by the sower’s principle, of giving more than one takes. If economists and other analysts were to proceed from original causes, in their analysis of crisis phenomena, this would undoubtedly help Mr. LaRouche swiftly to destroy the highly destructive conceptual models of development, existing today. They are pathological.

If we want to talk about genuine expanded reproduction, we must talk about a triune quality of development. The triune



In absolute darkness, the sense of vision becomes sharper, and he who wishes to see, begins to see

better. In this context, we see beyond a doubt the progressive nature of LaRouche’s ideas.

—Yuri Zabrodotsky

quality. There are three elements to this development. Now, I will make use of one hand. If my little finger is the x-axis and my thumb is the y-axis, the three rising development vectors in the middle can be enumerated as follows: the main productive forces, the production of material goods, and population growth. This is how civilization should develop, taking into account the so-called main productive forces. Today, however, you may ask any economist, and not one of them will be able to tell you how the natural component is taken into account, in the calculation of cost. The logic of this initial mistake results in further mistakes, later on.

The author of physical economy has taken a huge step, with his well-argued refutation of models that are destructive for development. Today—using my hand again, to demonstrate—the production of material goods and the growth of population occur at the expense of the corrosion of the biosphere, of the conditions for development. When this upper curve begins to intersect the lower curves, this expresses all the problems of our time. If we take civilization as a whole, we are developing in a degenerative, pathological fashion.

There are different degrees of seriousness of decay. If we take the so-called developing countries, the situation looks

like this: The upper two curves are falling, while the population is growing. The environment is degraded, production is falling, but the population is growing.

Abalkin: We have everything falling at once.

Zabrodotsky: Absolutely right. If we look at Russia today, all three are going down. This is an extreme degree of pathological development, an extreme degree of degradation.

But, as is often said, in absolute darkness, the sense of vision becomes sharper, and he who wishes to see, begins to see better. In this context, we see beyond a doubt the progressive nature of LaRouche’s ideas. We also see the work of certain of our own thinkers, who unfortunately have not been mentioned here today, but whose work is very important, and who could provide very important supplementary arguments in favor of LaRouche’s theories. I have in mind, above all, our thinker from the end of the last century—Podolinsky. He was the first to introduce the concept of mankind’s “energetic budget.” I think that his work contains a key for the analysis of the discontinuity we have today, the separation between the physical aspect and the fictitious part, which is what economists use as their calculating instrument today. Thank you for your attention.

Abalkin: Thank you. Tatyana Ivanovna Koryagina, the well-known economist and public figure in our country. The last speaker, then, will be Mr. Rytov from the Africa Institute.

Tatyana I. Koryagina

Tatyana Koryagina is the director of the independent agency, Socio-Economic Programs, Prognoses, and Alternatives (SEPPA).

Esteemed colleagues, dear guests. We are tired already, and I shall try to speak briefly.

It seems to me that a distinguishing feature of our conversation today, primarily among economists, is the constant interweaving of national and global economic problems, with political problems. In the longer perspective, as Mr. LaRouche indicated, we are talking about analyzing the course of historical time. I would even say—about the sacred meaning of history, and the struggle between good and evil.

Many of my colleagues have spoken in the language of geometry today, and I, too, maintain my own triangle. In the framework of that triangle, I would pose three questions: How? Why? and Who?

How, was outlined in the first presentation, by Mr. LaRouche, when the more general description of the international financial crisis incorporated the mechanisms of low-intensity conflicts. The problem of *why* was outlined in a number of presentations, and I would say that it is the problem of the battle over resources.

And—continuing the discussion with Mr. Korolyov—while I fully support the viewpoint that we should be con-

cerned with our domestic problems first and foremost, and secondly with global ones, I would just ask, in the context of the overall conversation: Who is going to leave us alone just now, to deal with our own problems? Like it or not, Russia covers an enormous territory, has enormous intellectual potential, and natural resources.

Our colleague Dr. Tennenbaum gave his answer to the question of *who*. This is international organized crime. I would like to elaborate on this subject, and, in the time allowed, bring additional factors into the analysis. In our re-



I would like to draw attention to the fact that the world is moving not simply towards becoming a criminal community, but, in my view, it is moving in the direction of a new totalitarian order.

—Tatyana Koryagina

search, we identify the natural factor of development, as well as the artificial factor. Without an analysis of the artificial factor, in the context of synthesis, it would be impossible to understand, for example, why our colleague Valentin Sergeyevich Pavlov found himself in prison—having honestly defended his scientific views—while neither Nikolai Ryzhkov nor Leonid Abalkin went to prison. This was both accidental, and lawful. The chance element, is that Leonid Ivanovich, Nikolai Ivanovich, and Valentin Sergeyevich all occupied high government posts at some point. What was lawful, is that the country was going through a period of both hot and cold conflict, and so it happened that the Soviet government colleagues, in the Council of Ministers headed by Pavlov—the other ministers of the U.S.S.R. were not sent to prison, while Mr. Pavlov, unfortunately, had the full weight of that evil come down on him.

Thus, talking about the natural and the artificial, I would like to draw the attention of our colleagues, both Russian and foreign, to the fact that the world is moving not simply towards becoming a criminal community, but, in my view, it is moving in the direction of a new totalitarian order. One confirmation of this, is that in the framework of worldwide illegal business, the foremost places are occupied not only by

highly profitable types of business—of course, the leader is the international narcotics trade, where the rate of return is as high as 1,200% per year—but also by capital-intensive sorts of production, the effects of which will continue to be felt very far down the line. First, I would mention the worldwide power sector, including nuclear power, and aerospace.

Moreover, there is a particular kind of interaction between the strictly criminal international organizations, and the intellectual-informational-psychological area of human activity. This is what we have discussed today, with respect to the mass media—especially television. But I would add, in this connection, a peculiar phenomenon in this sphere of organized crime in the world, which is the so-called economy of sectarianism, of religious sects.

Coming back to the beginning of my remarks, I would say that the issues we have to discuss today come down to the question of a choice: *Who is going to fight for what*. On the side of God, or of Satan? I think that literally almost everybody in our country today, has to make this choice. Therefore, I think that there are still many people who are waiting their turn to take the path Mr. Pavlov had to.

Abalkin: Thank you. The last registered speaker is Mr. Rytov.

L.N. Rytov

Mr. Rytov is from the Africa Institute of the Russian Academy of Sciences.

I liked Mr. LaRouche's presentation very much. Therefore, I shall not cite all the points with which I agree, of which there were many, but in the interest of economizing on time, I shall touch on those questions where I am not in full agreement, or where I have some doubt.

The question was raised, that the growth of physical production is lagging behind the state of monetary and financial circulation on a global scale. This problem exists and it is very serious, on both the micro- and the macroeconomic levels. But I, at least, cannot agree with LaRouche's warning about the fatal consequences of this tendency—or, as it was said here, about the end of human civilization. I cannot agree, because I found many of the logical proofs, offered in the presentations by others, not entirely convincing.

It seems to me, that the activity of certain national and supranational forces has been presented with some exaggeration. One example is the role of the British Empire or the London economic center. Or, there was a one-sided evaluation of these international forces, for example in how the international activity of the International Monetary Fund was evaluated. Not only the main speaker, the author of the most interesting presentation, Mr. LaRouche, but I think everybody discussed only the negative aspects of the IMF's activity. I do not think that such an approach is fruitful, respecting the

activity of any organization.

Certainly, the IMF deserves criticism, and its policies are often unfair to developing countries, and other countries. But examples may also be given of its positive role, in stabilizing the situation in various countries. If we take Russia, IMF aid has evidently helped to maintain a somewhat stable situation during the four years that Boris Yeltsin has been in power. It is not a question of whether or not each of us likes or does not like the Yeltsin government, but that, generally, thanks to IMF assistance, that regime has survived four years, while the situation was relatively stable.

Certainly, the IMF deserves criticism, and its policies are often unfair to developing countries, and other countries. But examples may also be given of its positive role, in stabilizing the situation.

—L.N. Rytov

Abalkin: At what cost? Half of industrial production. The rise in the death rate. One-third of the population below the subsistence level. The prospect of the Mexico scenario.

Rytov: I have very little time, so I shall not react to these comments, but would draw Academician Abalkin's attention: Regarding the collapse of production, I am talking not about economic stabilization, but political stabilization.

Abalkin: And I was talking about the price paid. This stabilization included the shelling of the Parliament, and the establishment of a general situation of terror.

Rytov: If we look at Africa, which I work on, there are several examples of the positive role of the IMF. Take, for example, the economic situation in Egypt after Nasser. Or, take the small country of Lesotho: The IMF saved the population there from hunger, after its secession from South Africa.

The question evidently arises: Is it worth it for developing countries to take loans from the International Monetary Fund and other international financial organizations? We have seen the terrible figures from Mexico. They are literally very frightening. But it seems to me, that these figures—minus one, plus three equals five—are a little tricky. What about this question: Wasn't Mexico taking new loans, not just paying on the old ones? I am thinking of the last years of Ceausescu, when Romania did not take any new credits, and paid off its previous debt in full. The result was an explosion of social anger, which did away with Ceausescu.

Therefore, the IMF's aid to Mexico may be interpreted as an attempt at enslavement; but on the other hand, it may be seen as an attempt to prevent a social explosion in Mexico.

Because an attempt to pay off the old debt, without taking any new credits, would mean even more belt-tightening for the population. And the price of a social explosion, or a revolutionary explosion, in that case would be far greater than paying interest to the IMF. I wanted to draw attention to the fact that it is impossible to study economic problems, in any particular country or in the world, except in connection with social problems.

At present, the International Monetary Fund is offering huge credit assistance to a newly independent country in Africa—the Republic of South Africa. Some people say that the IMF is *imposing* these credits. To date, the R.S.A. government has, in effect, turned down these credits. But as a result of this posture, the solution of the main economic and social problems facing the country is threatened—the reconstruction and development program. This program is aimed at improving the standard of living of the country's black population. The danger exists, that if the situation of the poor, black population does not improve in the coming five to ten years, a social explosion could ripen that would assume racial features—clashes between blacks and whites.

Finally, if we talk about the global level, about the possibility of a worldwide economic collapse, such international economic organizations as the IMF, GATT, and others can probably be viewed not only as factors threatening the economy, but as counterweights, deterrents to the threat of collapse, able to deploy such powerful economic mechanisms as changing currency rates, interest rates, and so forth.

I beg to disagree with the conclusion about an inexorable end of civilization, for the reason that I do not believe the world will end before the second coming of Christ.

Leonid Abalkin

Mr. Abalkin is an Academician, director of the Institute of Economics, Russian Academy of Sciences.

Esteemed colleagues, all those wishing to speak have had the floor, and we are nearing the conclusion of our work. I would like to remind you about the tradition of our round table. We do not pass a verdict here, on who is right, or who is right to what degree. This is not our purpose.

On the basis of the principles I mentioned at the outset, I would like to sum up very briefly.

On our first aim: Did we succeed in bringing together a powerful charge of intellectual energy, which would yield discussion and engagement of various ideas, and thus enrich us and move us all forward? I would answer that question in the affirmative. Irrespective of what I personally agreed or disagreed with, I found this discussion to be extraordinarily useful and fruitful.

Much of what was said here coincides with the research being done at our institute. In brief, we have reached the

conclusion that in the last third of the twentieth century, radical shifts in the development of human civilization have taken place. The development of human civilization is taking absolutely different directions, and with different tendencies, than were anticipated by the best thinkers not so long ago. The nature of this shift in the development of civilization still needs to be conceptualized, from the standpoint of identifying both its positive and its negative aspects. In our opinion, however, not a single one of the theories existing in the world, or in science, has yet been able to answer the questions that have arisen, that have been posed by reality. In addition to all the other crises—ecological, financial—there is a general, worldwide crisis of the social sciences, and social thought. To use the well-known words of Kuhn, today we are facing the necessity of developing a new paradigm in the social sciences, a new paradigm, which would explain the past and present of human society. I view everything of interest being done in various scientific schools of thought in the world today, as the first small steps in a search for this new paradigm. I also see all the work of Professor LaRouche as a step on the path to this paradigm, but not as the ultimate answer to all the questions or a fully formed new type of social consciousness.

I would like to distinguish those consequences which follow from the imperfection of theoretical concepts, from those that have other causes. Of course, I am prepared to endorse the criticism of monetarism, the primitive notions of monetarism, but I would not be inclined to attribute everything solely to those mistakes; although they do have a very strong influence on people. What I would like to emphasize, is what I was saying before—that they have a powerful reproductive capacity. The errors of monetarism have a strong basis for reproducing themselves.

‘Well-armed, well-trained adversary’

It would be better to put it more simply: The old men will die off. The centers of monetarism are recruiting *the best students, all over the world*—from Russia, from China, and so forth. They pay people high stipends, to attend their universities, business schools, IMF training programs, and so on. They are training people to be just like them, who will take their place in the governments of the relevant countries, and in the apparatus of the IMF and other international organizations.

The same resources are financing publication of a huge quantity of literature, preaching these ideas. Powerful electronic information networks, including television, have been coopted for the purpose of imposing these ideas. So I would like to say that we are facing a rather powerful, well-armed and well-trained adversary, which will not surrender its positions without a fight. Furthermore, this is augmented by a second factor, namely economic interests. The conduct of that policy yields a very high return, which makes it possible to buy off not only individual people, but entire governments; to finance the training and recruitment process generously.

I think that this is a big task, which needs to be discussed further, on a global scale. We should, somehow, raise an alarm in the world community, including the world scientific community, about the dangerous consequences of such a one-sided, extreme conception of politics and financial affairs.

But, on the other hand, there is a practical question here: the problems of Russia today. I, too, am not inclined to paint a picture of Apocalypse. But, in analyzing the destruction of the technological nucleus of our economy and the loss of our leading positions in several areas of economics, science, and education, I conclude that we still have a reserve of two



I conclude that we still have a reserve of two or three years at most, after which the destruction . . . will become irreversible, and the fate of Mexico will descend upon Russia full-force.

—Leonid Abalkin

or three years at most, after which the destruction, including the destruction of the genetic pool of Russian [*rossiiskogo*] society will become irreversible, and the fate of Mexico will descend upon Russia full-force. Studies show that if these policies continue for two to three years, the debt noose will tighten around the neck of the Russian economy, and it will be tightened automatically—if there is not a radical break with these policies, during the next two to three years.

While from the standpoint of this intellectual exchange, I think we have already accomplished the task of today's round table, and accomplished it well, there is the second task I mentioned—to awaken public opinion and draw the attention of political forces to the problems Mr. LaRouche has posed, and to the discussion that unfolded around them. I think that we must break through the wall of silence: to publish the proceedings of this round table as soon as possible; to make a certain amount of publicity around them; if possible, to publish them in several languages. This will have to be discussed in a working meeting; we cannot vote on it. But I think that we should record our shared, firm consensus that this material should be distributed as widely as possible, and public attention drawn to it, not only in Russia, but perhaps also in other countries.

More 'Nobel lies'

Lyndon H. LaRouche, Jr. reviews "Pragmatic Gradualism: Reform Strategy for Russia," the proceedings of an Economic Transition Group seminar.

East Germany has been somewhat of a success, but it has taken huge government investment over four years. It was the largest transfer ever executed. That kind of rebuilding isn't available for the Russian economy.

—Professor Lawrence R. Klein, at New York University, March 17, 1995¹

As usual, Nobel laureate Lawrence Klein is wrong.²

Like the other post-1989 developments in what had been the Comecon sector of the world economy, the economic history of the area of the former German Democratic Republic (G.D.R.), stands today as a monumental failure. Had not the agricultural potential of that region, also, been extensively destroyed during the past six years, in addition to the industrial sectors, the resulting destruction of east Germany would have been a perfect imitation of that postwar "Morgenthau Plan," the which had been designed to reduce the entirety of post-World War II Germany to a de-industrialized state of bucolic docility. The "reform" which the Thatcherites and George Bush imposed upon Russia, like the Morgenthau Plan before it, was designed with the intent to destroy, not to rebuild.

Throughout the former Comecon sector, the results of the post-1989 reform match that same design, that same malicious intention.³ Throughout that region, cruel travesty in the

name of "free market economy," has provoked, among Russians and others, that sense of betrayal which led to the return to power of Communist parties, in election after election, in most among the countries of post-communist eastern Europe. The apparent exceptions to this pattern, such as eastern Germany and Russia, are dwindling in number, as is illustrated by the recent show of strength by the PDS in Germany, and the Communist Party in Russia.

Unlike Professor Klein, most of the economists who have considered the relevant, 1990-1996 results in Russia, are willing to concede, that the so-called "market economy" reform has been a calamity. Virtually the same results, from the same species of "market economy" medicine, are seen in every other country in eastern Europe and the territory of the former Soviet Union. Even most among those leading economists who argue for continuing the radical "free market" reforms, do not deny the calamitous results produced during 1989-1996, nor have they denied that the reform produced such catastrophes. Their defense of the reform, is to the effect of the International Monetary Fund's saying to the Russians, and other victims of its policy, that, to reach Paradise, it is necessary, first, to die: *that it has been necessary to kill and burn the Phoenix-economies of eastern Europe, so that that region might be reborn from its ashes, as a "true market economy."*

The Russian participants in 1995 discussions of the Economic Transition Group, point to this pattern in the former Soviet territory. Some among their U.S.A. interlocutors acknowledge the existence of the phenomenon. The reality is summed-up fairly, in the Preface of the July 1995, English-language edition of the proceedings: ***Pragmatic Gradualism: Reform Strategy for Russia***. That Preface, by Valery Makarov of the Central Mathematical-Economics Institute of Russia's Academy of Science, begins:

On January 2, 1992, Russia embraced "shock therapy." Since then, the basic strategy for economic reform has been to get the government out of the economy as quickly and completely as possible. Strongly advocated

1. *Pragmatic Gradualism: Reform Strategy for Russia* (Moscow: Economic Transition Group, August 1995) (73 pp). p. 59.

2. The record of Klein, and his Wharton School cronies, in Mexico, since 1982, would be more than sufficient evidence of the pervasive incompetence of his econometric methods.

3. Although this policy of the Thatcher-Mitterrand, Anglo-French *Entente Cordiale* was operational earlier, in such forms as the design for what became the "Maastricht" agreements, the British policy for destroying the nations of the former Comecon was more vividly publicized, during the autumn of 1989, by Conor Cruise O'Brien and Thatcher Minister Nicholas Ridley. The *Entente Cordiale* partners of 1989 expressed their determination, not only to prevent Germany from being reunified, but, above all, to prevent Germany from entering into those forms of large-scale economic cooperation with the formerly Communist states, by means of which the kind of policy proposed, in 1989, by Deutsche Bank's Alfred Herrhausen, might be implemented. For purposes of rhetoric, Mrs. Thatcher's regime, in concert with Slobodan Milosevic's Serbia and Israel's extreme right-wingers, referred to its efforts to sabotage economic recovery in both the Balkan, and former Comecon states, perversely, as an effort to prevent Germany from becoming a *Fourth Reich*. Under the so-called "reform" imposed upon Poland, and then Russia, by the combination of British Thatcherites, Mitterrand, and George Bush,

the possibility of a recovery of either eastern, or western continental Europe, has been virtually eliminated today—unless the United States were to intervene forcefully to reverse this policy of induced economic collapse.

by the West but never popular in Russia, this attempt at sudden *laissez-faire* has led to collapsing production and widespread poverty. In the eyes of a distressed and disillusioned populace, crime and corruption are the hallmarks of the transformation. Promising the restoration of law-and-order and economic strength, nationalist extremism is gaining momentum. Although most remain committed to democracy, recently achieved civil rights, already eroded, may not endure.⁴

From among the U.S.A. participants in that dialogue, the frankest acknowledgment of that reality, if with some degree of understatement, was supplied by Lance Taylor:⁵

Dismantling the planning system was beyond the scope of the theory underlying big bang or global shock reform packages of the early 1990s. As a result, the macroeconomic adjustment mechanisms put into place did not fit the situation at hand and worsened the output losses and inflations that were in any case structurally inevitable during the transition. Restoring macroeconomic balance will not be easy, but it can be done. . . . As society's superordinate actor, the state will have to play a central role. The state surely can fail in several dimensions. It can try to do too much, thereby achieving little. It can become purely predatory, as in countless petty dictatorships. Nonetheless, successful reform will require a degree of state intervention that most reformers neither contemplate nor comprehend.⁶

That is fair comment. There are important errors in Taylor's contribution, but none of the malicious tendentiousness typical of apologists for Jeffrey Sachs or the IMF mafia.

Many criticisms, of several distinct varieties, could be made of the sundry contributions to this July 1995 publication of the Economic Transition Group. Most such criticisms, however legitimate each might be for consideration under different circumstances, should be put aside here. In addressing *Pragmatic Gradualism's* content, the reviewer must address the proposition, "How well does the collection of contributions, taken in its aggregated entirety, serve the purpose to which the publisher had assembled these participants in the discussion of Russia's future reform policy?"⁷

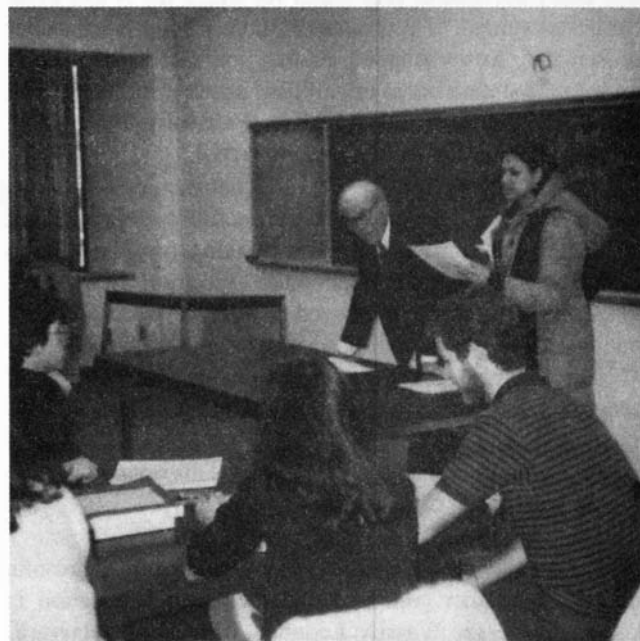
With that question in view, consider a relevant observation, which arises in the otherwise misconceived contribution by Nobel laureate Kenneth Arrow, presently one of the world's senior Malthusians:⁷

4. op. cit., p. ii.

5. New School for Social Research, New York, N.Y.

6. op. cit., p. 56.

7. On 1972 Nobel laureate Arrow as a Malthusian, see Lyndon H. LaRouche, Jr., "Kenneth Arrow Runs Out of Ideas, But Not Words," *21st Century Science & Technology*, Fall 1995. That report was prompted by Kenneth



LaRouche Democrat Susan Bowen, during her 1984 campaign for Congress in Pennsylvania, walked into the classroom of Nobel Prize economist Lawrence Klein at the Wharton School in Philadelphia, and indicted him for crimes against humanity, for promoting malthusian policies in Philadelphia as well as the Third World.

. . . No doubt many factors operate, but the one which I want to stress, the role of time, is intimately linked with a deeper understanding of the price system and markets. There is a future as well as a present in economic life. . . . What I mean by the role of time can be stated paradoxically: the future influences the present. This seems like a violation of our ordinary laws of causality, but what is really meant is that our expectations of the future will affect what we do in the present.⁸

That far, a point of crucial importance for Russia's economic recovery today; but, then, Arrow's mind appears to wander off, from the sublime of Plato's and Ramon Llull's treatment of this principle of science, into the banal.⁹

We must award Arrow the qualified compliment, that that passage represents perhaps the best a veteran operations researcher and Malthusian could do, in attempting to take up Plato's original conception, of the action of future upon present. Arrow thus posed, if only in passing, that issue of method, which is crucial for identifying the total bankruptcy of virtu-

Arrow, et al., "Economic Growth, Carrying Capacity, and the Environment," *Science*, April 28, 1995, pp. 520-521.

8. op. cit., p. 42.

9. For a treatment of this principle of economics, compare Lyndon H. LaRouche, Jr., "How Hobbes' Mathematics Misshaped Modern History," *Fidelio* Spring 1996.

ally every doctrine of economics for which the Nobel Prize has been awarded.¹⁰ Unfortunately, there, just outside the door of Paradise, Arrow stopped. At that point, he lingered for a moment, and then retreated, all as if absent-mindedly, back through Purgatory, to the Hades where virtually all the Nobel Prize economics laureates appear to repose.

Arrow, like most among the U.S. contributors to the same proceedings, may have made some useful observations, but he has failed to contribute anything pointing toward a solution for the problem which the Economic Transition Group seeks to solve. Consider the referenced point from Arrow's contribution, from that standpoint.

The core of Arrow's passing argument, on the notion of economic time, outlives the remainder of his paper:

... the future influences the present; This seems like a violation of our ordinary laws of causality, ...

Let us combine the implications of that point with the results for which another contributor to the same publication is known, Professor Wassily Leontief, formerly of Harvard, now based at New York University, where he, Russian Coordinator V. Makarov, and others, met on March 17, 1995.¹¹

10. To be specific, excepting the work of France's Maurice Allais.

11. Makarov, op. cit., pp. 57-64.



LaRouche Campaign Is On the Internet!

Lyndon LaRouche's Democratic presidential primary campaign has established a World Wide Web site on the Internet. The "home page" brings you recent policy statements by the candidate as well as a brief biographical resumé.

TO REACH the LaRouche page on the Internet:

<http://www.clark.net/larouche/welcome.html>

TO REACH the campaign by electronic mail:

larouche@clark.net

Paid for by Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee.

Let us consider the most crucial shortcoming of Leontief's achievements, in the light of the point which Arrow fails to develop. There lies the key to understanding the failures inhering in most current opinion on the best way to reform an already worse than intolerable reform.

Why Nobel laureates flunk economics

Many contributing, underlying presumptions, have prompted the apocalyptic failure of all among the past quarter-century's sundry proposals for "liberal market reforms," in all parts of the world, as in the former Comecon sector. In the cases of the IMF, the British monarchy, France's President Mitterrand, or the Bush administration, for example, the motive for the disastrous proposals imposed so forcefully upon the momentarily defenseless former Comecon sector, is nothing but willful malice. In the case of Professor Jeffrey Sachs, for example, although the motives of those who deployed Sachs were evil ones, it is conceivable that Sachs himself knew no better; Sachs's public utterances suggest a man who proceeded, personally, under the governance of a well-known type of sophomoric innocence, the which is notorious among a pompously adolescent variety of western academic.

Put aside both the willfully malicious reformers, and sophomores such as Sachs. Limit our attention to the instances in which the proponent acted both in good faith, and according to a generally accepted professional standard, whether that standard were competent, or not. Limit our attention, here, to the principal source of the disastrous outcome common to the proposals of all of these economists: the devastating systemic fallacies in the underlying assumptions of today's generally accepted academic instruction in economics.

The crucial point at issue here, is that on which all widely accepted economics doctrines tend to collapse into anti-scientific, utopian fantasies: *What is the source of those two, interdependent magnitudes, which we term, in the one case, the net physical-economic growth of an entire society, and, in the other case, the same society's "macroeconomic" profit?* There is no *rational* answer for this question within the framework of Adam Smith and his successors, Karl Marx included. In the Soviet system of practice, in contrast to both Smith and Marx, the generation of growth was located, as Arrow implies, in what is fairly identified as "the planning function."¹²

Put most simply: If one blundered into the false assumption, that human existence were not distinguished functionally from the existence of the beasts (by man's capacity for generating net physical-economic growth through technological and analogous advances), it would be most difficult to demonstrate empirically a crucially significant, axiomatic difference in ecology, between Lord Solly Zuckerman's society

12. Since the answer to this question is the solution which I discovered approximately forty-five years ago, I must repeat here points which I have made frequently, both in other published professional locations, and as the central theme of my campaign for the 1996 U.S. Presidential nomination.

of baboons, and one of human beings. All modern “Malthusian” dogma, since Giovanni Botero,¹³ is premised implicitly upon that axiomatic folly.

Once we shift the measurement of “profit,” from the notion of the aggregated, individual, nominal profits of a society’s firms, to measurement of the net physical-economic growth of the society considered as an indivisible whole, it becomes clear, as we shall show below, that the notion of “profit” among Adam Smith and his followers, has no correspondence to the distinctive realities of human existence, no correspondence to the decisive issues of any form of national political-economy, “planned economy” or other. That is the point on which the relevant Nobel laureates abandon economics, for the irrationalist, ideological utopianism of those who designed the IMF’s reforms for Russia. The common trait of such fellows, is that they identify the source of net growth, to be the imputed sympathetic-magical potency of some empty shibboleth, some witch’s remedy, such as the “free trade” dogma of the devilish Mont Pelerin Society’s “saint,” Bernard de Mandeville.¹⁴

This provides the setting in which to bring Arrow’s reference to “economic time” into focus.

If definition of “profit” is the net physical-economic growth of an entire society, how shall the portion of this growth, attributable as the estimated profit of the individual enterprise, be derived from the net growth of society as a whole? Similarly, how shall we measure, in functional terms, the relative contribution, of the activity of the individual person in society, to the rate of growth of the society as a functional unit? Conversely, if we employ that definition of “macroeconomic profit,” by what means might some portion of the individual enterprise’s output be adjudged “profit”: How do we know, that what that firm might claim to be its profit, corresponds to the net physical-economic growth of the entire society? On this point, the Nobel Prize for economics, itself, is intellectually bankrupt.

13. See, the appendix (*Delle cause della grandezza e magnificenza della città*), in his 1588 *Della ragion di stato* (English edition, 1606). Botero is an early forerunner of that Venetian monk, Giannaria Ortes, the English translation of whose 1790 book, *Riflessioni sulla popolazione delle nazioni*, was plagiarized for Thomas Malthus’ 1798 *On Population*. All present-day dogmas of ecology, including that of Arrow et al., are implicitly derived, proximately, from the work of Ortes, and of Ortes’ and Leonhard Euler’s Berlin accomplice, the hoaxster Pierre-Louis Maupertuis.

14. The British propaganda arm known as the Mont Pelerin Society, was formed, at the close of World War II, by the faction of the anti-Roosevelt Winston Churchill. It was set up to promote the dogma of the early Eighteenth Century Anglo-Dutch radical, and pro-satanist, Bernard de Mandeville. That Society is represented today, even after his death, by the notorious radical-conservative, and Mandeville devotee, Friedrich von Hayek. Most of the organizations associated with today’s “neo-conservatives,” as typified by today’s Heritage Foundation, are offshoots of British penetration of the United States’ political parties and economics departments of universities, by the Mont Pelerin Society. On Mandeville and the pro-satanist roots of British Eighteenth-Century “moral philosophy,” see historian H. Graham Lowry, “The Mandeville Model,” *Fidelio* Spring 1996.

Focussing upon this point, brings Arrow’s referenced point, on the impact of future upon present, into better focus.

The available empirical record is, that the ability of mankind to rise above the planetary population potential of any higher ape (about three millions living individuals)¹⁵ depends upon those kinds of increases in the *physical* productive powers of an imputable total labor-force, which improve potential population-density (per square kilometer), while also improving life-expectancies, and other demographic characteristics of the increased total population. During the course of the recent 2,600 years of the rise of European civilization, we have greatly increased the precision of our empirical insight into those principles which give the human species qualitative superiority over all other living creatures, on this account.

That relevant, characteristic distinction of the human mind, is the developable potential ability of the individual person, to generate, impart, and receive,¹⁶ a certain type of conception of natural principles, a type of conception which can not be prompted by mere sense-perception, nor by the formalities of pre-existing vocabulary and literal significance of terms in use within in the relevant language.¹⁷ The valida-

15. This estimate of approximately three millions individuals is related to the ecological conditions of the recent two millions years.

16. Cf. P.B. Shelley, “In Defence of Poetry” (1821), *passim*. Shelley’s reference to the power “to impart and receive the most profound and impassioned conceptions respecting man and nature,” is a quality attributed, in that location, to poetical and related communications. However, there is no difference in the faculty of individual mental potential, by means of which the characteristic of great poetry (e.g., true metaphor) is generated and recognized, and the power of original discovery of valid principle in physical science. We owe to the influence of both Hobbes’ empiricism, and the neo-Aristotelean empiricism of the notorious Immanuel Kant, the Romantics and their bastard offspring, the existentialists, the false presumption, that no rational comprehension of art and artistic taste were possible. (E.g., Savigny’s fraudulent, but influential, hermetic separation of his irrationalist’s domain of *Geisteswissenschaft* and *Volksgeist*, from the realm of *Naturwissenschaft*.) Creativity in physical science, as Leibniz’s *Monadology* or Riemann’s 1854 habilitation dissertation, defines creativity, occurs by the same faculty of subjunctive reasoning through which the principle of metaphor is generated and recognized in Classical strophic poetry, or Classical (anti-Romantic) musical compositions such as those exemplary works of motivic thorough-composition by Mozart, Beethoven, Schubert, and Brahms from the 1782-1896 interval.

17. This identifies the principled difference between *Wissen* and *Kennen* in strict German Classical philosophy. *Knowing* pertains to the class of conceptions otherwise identified as *Platonic ideas*, such as those principles of physical space-time which are proven to be efficient, but which can not be simply adduced from mere sense-perception of some individual object. *To know* should be employed by our readers, to signify that the person who knows, has either conducted the mental act of original discovery of a validated principle of science (or Classical art), or has reenacted the mental act performed by the original discoverer. This quality of knowing is to be distinguished absolutely from mere learning, mere sense-experience. On the definition of *Platonic ideas*: This notion is presented, first, in Plato’s dialogues, to identify the notions of “love of truth,” “love of justice” (as in the *Republic*). The subject of John Keats’s *Ode on a Grecian Urn*, is Plato’s principle, that beauty is the quality uniquely peculiar to experience of truth. The same conception is elaborated, in Plato’s later dialogues, as the quality of those ideas which represent valid, axiomatically revolutionary discoveries of principle, such as universal physical principles.

tion of such a discovery of natural principle, in physical science or in Classical forms of art, has, therefore, the effect of changing one or more of the axioms and postulates within a physical space-time expressed in the terms of a formal geometry.¹⁸ It is the addition of new, valid, axiomatically revolutionary discoveries in science, and in Classical art-forms, which transforms human practice, to the effect of increasing the *potential relative population-density* of a society with improved demographic characteristics.

It is from that standpoint, and that alone, that a rational comprehension is possible, of the relationship between microeconomic and macroeconomic relations. Arrow's groping effort to show the efficient action of future upon present, is given an appropriate, rational expression, only in these terms of reference. This is also the most efficient choice of issue, in respect to which all attempts to apply systems analysis, or Arrow's school of "operations research," to human behavior, are shown empirically to be hoaxes. This is the standpoint, from which to expose as fact,¹⁹ that all of today's widely accepted classroom doctrines in economics underlie the design of today's global monetary-financial and economic disasters.

The 'thermodynamics' of a minimum wage

The comprehension of that underlying relationship between microeconomic and macroeconomic phenomena, is illustrated in the following, "thermodynamical" terms of approximation.

The commonplace, ignorant opinion of today's economics textbook and classroom, is recognizable as echoing the German Romantic socialist Ferdinand Lassalle's "iron law of wages": the notion of "wages" associated with a supposed "bare minimum" needed to support the existence of the laborer, treating the laborer as though he or she were merely another farm animal. Contrary to Lassalle, in the first among Gottfried Leibniz's presently published works on the subject of physical economy, his 1671 *Society and Economy*,²⁰ Leibniz introduces the rational notion of necessary level of wage: that the required minimum wage is a function of the required level of productivity of the members of society. The absolute content of the market-basket of household consumption, must

be increased as the required level of present and future productivity is increased.

Restated, the notion of "necessary wage," must be a notion analogous to the use of "energy of the system," in ordinary thermodynamics.

The nature of that functional relationship is best illustrated, in first approximation, by examining the implications of the correlation: between the potential general productivity of a labor-force considered in its entirety, and the level and quality of education.

The highest level and rate of technological progress, combined, achieved by the United States' economy, was reached during the turning-point years of 1966-1969. After that turning-point, the net direction of the economy, as measured in physical-economic terms, has been downward, at a secular rate of more than 2% average contraction per year. The implied task, is to estimate the level of household consumption required to maintain the level and rate of technological progress, within the society as a whole, expressed by man's first landing on the Moon. We are aided in constructing such estimates, by such evidence as the 1976 report of Chase Econometrics, to the effect that the U.S. economy as a whole was returned fourteen dollars of growth for each dollar spent on the U.S. government's aerospace research and development program of the 1960s. The task of estimating that market-basket, includes the assumed policy, that all of the U.S. population were to be brought up to the standard which is implicitly typified by the aerospace tool-making sector's most critical contributions to the manned Moon landing.

Focus upon education. In today's terms of reference, our task is, implicitly, that of achieving a relative perfection of universal education of the young, up to the implied scientific, technological, and related, *cognitive* standard.

"Cognitive" signifies an education based upon the principle of *knowing*, as distinct from the qualitatively lower standard, the principle of mere *learning*, the latter the principle of mere "textbook education." "Cognitive" signifies that the student's education is based upon the student's reexperiencing the valid, axiomatically revolutionary original discoveries of science and Classical art-forms, such that the student *knows* each principle, as if he or she had lived through both the reenactment of the original act of discovery, and its experimental validation.

The goal of such universal education is, that all future citizens shall know the most crucial among all of those discoveries of principle contributed by all mankind's historic existence, and also those other principles which pre-historic society transmitted to us. This mandatory universal education of the future citizen, must take the student through secondary and undergraduate levels, to the effect of encompassing the reenactment of all the most crucial knowledge existing up to the present time.

This mandates a typical class-size of not more than fifteen to seventeen pupils, requires teachers with the qualifications implied, and prescribes facilities to match both the teaching

18. E.g., in terms of a formal "theorem-lattice." Bernhard Riemann generalized this notion in his 1854 habilitation dissertation, *Über die Hypothesen, welche der Geometrie zu Grunde liegen*. See, *Bernhard Riemann's Gesammelte Mathematische Werke* Reprint of 1902 A.G. Tuebner, Stuttgart edition (New York: Dover Publications, 1953), pp. 271-287.

19. Contrary to the empiricists, the quality of knowledge is not sense-experience, but, rather, the method by means of which what is claimed as knowledge has been obtained. On that account, the highest quality of factualness is found among Platonic ideas; the truthfulness of facts is to be adjudged through application of the principle of hypothesis as "yardstick." The principle of guilt, "knew or should have known," is an example of the method by means of which a finding of "fact" is to be supplied, and the method by which such a finding is properly subjected to tests of truthfulness (e.g., absence of such fallacies of composition as are fostered through suppression of relevant evidence).

20. As republished in *Fidelio* Fall 1992.

requirements and access to education by the population. This signifies a definite size of the educational labor-force, and a modal school-leaving age of between twenty-two and twenty-five years of age. Situating those requirements in a physical economy such as that of the U.S.A. 1966-1969, defines a set of constraints bearing upon the division of labor, capital-intensity, and infrastructural development, of the society. Those requirements, bearing upon the composition of a combined market-basket of household, agricultural, manufacturing, infrastructural, educational, health care, and science-and-technology services, taken together, and measured in terms of per capita of labor-force, per household, and per square kilometer of relevant land-area used, define the minimal standard income of that society, required to maintain that level of technology. In the language of thermodynamics: “energy of the system.”

This example illustrates the point, that no competent measure of performance of an economy, could separate the demographic well-being of the whole population from “economy” otherwise defined. It is man’s power over nature, expressed in terms of per capita, per household, and per square kilometer of a nation’s usable territory, and expressed in terms of improvements in demographic characteristics of the population taken as a whole, which is the basis for any competent measure of economic performance. The correlation of the cognitive content of education, with the physical productivity of the total labor-force, per capita, illustrates this correlation. Only a productive population, typified by modern industrial nation-states’ levels of health and life-expectancy, could sustain a population capable of the degree of productive power which the 1969 Moon landing typifies.

Although the effective realization of the potential of modern science, demands corresponding increases in capital-intensity, power-density, usable qualities of water per capita and per square kilometer, and so on, the mere satisfaction of those constraints does not cause the increase in the potential relative population-density of the society. Although bounded by such constraints, the increase of the productive power of labor, is “caused by” those advances in the cognitive powers of labor per capita which we have associated, here, with a Classical mode of education.

This brings us to the crux of the incompetence of generally accepted classroom economics, worldwide, today.

To this effect, restate the implications of a Classical mode in cognitive education, as follows.

Return attention to the referenced implications of Riemann’s 1854 habilitation dissertation. Consider the Cartesian and analogous notions: Euler’s 1761 assumption, that three dimensions of space, plus one of time, are extended, linearly, each, with perfect continuity, without limit. Consider the correlated, Newtonian, algebraic mis-conception of matter, space, and time: that, material action occurs within a quadruply-extended, Cartesian-like space-time. Reject this notion of matter, space, and time, as Leibniz did, and in more detail, as Riemann did.

As Riemann emphasizes, at the outset of his dissertation: The popular conceit to be discarded, is the delusion, that the Cartesian-like notion of a “Euclidean space-time,” is either a mirror-image of the universe, or that, as the empiricists prefer, at best, that these notions of space and time are given to our Aristotelean, in-born *tabula rasa*, through our sense organs; and, that these assumptions are, therefore, the best estimates of space and time we might adopt as axiomatic.

In fact, the history of successful, axiomatic-revolutionary discoveries of physical principle, shows us that the characteristic effect of these discoveries upon mathematical thinking, is to force us to abandon those axiomatic notions of physical space-time which the experimental evidence has obliged us to regard as paradoxical, as flawed. The measurements which validate each such discovery, oblige us to recognize that action in physical space-time occurs in a characteristically different way than we had previously assumed. We are obliged to say, that our measurement, of the geodetic pathway of least action within physical space-time, is changed in this way. This new physical principle has, in each instance, a quality of extension, such that, in this respect, it mimics, and supersedes, functionally, the notion of extension we had associated with naive notions of space and time. Hence, we abandon quadruply-extended, Cartesian, algebraic space-time, for a physical space-time of an expanding number of “dimensions”: From n , through $n+1$ dimensions, and beyond.

Thus, since Riemann’s work, we speak of a Gaussian geodetic *curvature* of physical space-time. We speak, as Riemann did, of the ordering of successive, valid discoveries of axiomatic-revolutionary physical principle, in each instance, as of the order $(n+1)/n$. We must apply this approach, not only to axiomatic discoveries of physical principle, but also to those discoveries of Classical art, and related discoveries, which have analogous import for the effective, cognitive modification of human behavior.

As Riemann’s work requires, regard each resulting difference in the axiomatics of mathematical physics (for example) as an *hypothesis*, in Plato’s sense of that term. Thus, the series of the ordering $(n+1)/n$, is a series of hypotheses, each thus representing a formal theorem-lattice, the which is pervasively inconsistent with those hypotheses which have been superseded in this way. Each such “gap” among successive hypotheses has the formal-mathematical, or analogous quality of a formal hyperbolic, or quasi-analogous, absolute discontinuity.²¹

21. It is useful to compare this with the axiomatic principles underlying Riemann’s paradigmatic notion of isentropic compression, as in his *Über die Fortpflanzung ebener Luftwellen von endlicher Schwingungsweite, Werke* (op. cit.) pp. 156-175. Lord Rayleigh, for example, staked the authority of all the kinematic (and geometrical principles) accepted by the British empiricists and the positivists, on the presumption that Riemann’s notion of isentropic compression was false; Rayleigh and his co-thinkers were thus discredited absolutely, by Rayleigh’s own standard, through the Prandtl-Busemann application of Riemann’s principle to the problem of design for transsonic and supersonic powered flight. As will be elaborated in forthcoming publication of the work of others, following the work of the late Professor Robert Moon, the crux of the issue between the electrodynamics of Gauss-Weber-Riemann, and

Thus, a competent Classical education's impact upon the mind of the student, is to increase the density of such discontinuities per interval of mental action by that student, then, and thereafter. The level of relative increase of the density of axiomatic (i.e., absolute, or "theorem-lattice") discontinuities, must be conceptualized as a notion of efficient potential. The realization of this potential has a well-defined correlative in economic development. Describe that correlative in the language of approximation supplied by classroom thermodynamics.

To sustain the growth of society, according to the indicated demographic terms, it is necessary, not only to maintain the level of energy of the system (per capita, per household, per imputable square kilometer); the rate of growth must be sustained, despite the rise in relative capital-intensity and power-density of means of production and distribution. This rate of growth is expressed in terms of a ratio of "free energy" to "energy of the system," but under the condition that the three features of the "energy of the system" increase in material cost²²: 1) in physical terms of market-baskets' content; 2) in terms of capital-intensity; 3) in terms of power-density. The primary constraint, is that, despite the increase in absolute material cost of the "market basket" corresponding to per-capita "energy of the system," the ratio of "free energy" to "energy of the system" must not decline.

This constraint is no mere fiction; it is the characteristic physical-economic (e.g., demographic) feature of every successful phase up-shift of known human existence. The source of the increase sufficient to satisfy such values for today's momentary ratio of "free energy" to "energy of the system," is that increase in cognitive power of the individual associated with the notion of a Riemann phase-shift of the form $(n+1)/n$. This form, or *type*²³ of phase-shift, is the only notion which deserves the term "not-entropy."²⁴ This notion of "not-entropy" provides the solution for the paradox noted by Arrow.

the mechanistic opposing school of Clausius, Grassmann, Maxwell, et al., is the same issue, as it arises out of a close scrutiny of the relevant work of Ampère. In mathematics generally (e.g., the Bourbaki school), as in Euler's 1761 attack upon Leibniz's *Monadology*, and in Euler-Lagrange co-thinker Augustin Cauchy's bowdlerized revision of the Leibniz calculus, the problem posed by Riemann is evaded, by Euler's fraudulent tactic of 1761, of blindly "sliding through" discontinuities wherever they might be suspected to lurk. This is the most crucial issue of any effort to generalize a mathematical economics.

22. Per capita, per household, and per square kilometer.

23. "Type" is used here in the sense of "transfinite types" assigned by Georg Cantor, but as that definition were better situated within the context of Riemann's work.

24. We do not wish to consider the characteristic not-entropy of life, or of Vernadsky's "noosphere," within the text of this report. It is sufficient to acknowledge, that the definition of "not-entropy" applicable to the characteristic distinction of living, from non-living processes, parallels the definition of "not-entropy" characteristic of the distinction between cognitive and non-cognitive processes, hence, in the latter case, of viable and morbid economic processes. In general, it is useful to say, that human knowledge is situated with respect to a three-by-three matrix: the interaction among the domains of microphysics, astrophysics, and macrophysics, examined in terms of the

'Man as the measure'

It must be assumed, that a global culture as manifestly perverse as our own has been during most of this century, must have some flaw embedded within it, perhaps even numerous flaws. This is to say, that the very fact that an opinion is popular, might be sufficient grounds to suspect that it is also absurd; this distrust of leading opinion, lays its heaviest blows upon official and academic dogma, since it is the prejudices cultivated by these two latter institutions, the which must have incurred the greatest responsibility for shaping the leading policies of practice of, and among nations.

In respect to the relevant economic follies which have been perpetrated in the misused name of "science," the most pernicious, *axiomatically*, has been the influence of Aristotle. For the matter immediately at hand, the foremost of Aristotle's relevant frauds, are two: Aristotle's notion of the newborn human mind as a *tabula rasa*,²⁵ and the corollary assumption, that the scientific viewpoint is that of the *hesychast*: the so-called "contemplative" vantage-point.

Once we have accepted the decisive evidence of experimental physics, including that of physical economy, which supports the argument of Riemann's "Hypotheses" dissertation: We can no longer accept today's still-popularized illusion, of the Aristoteleans and their bastard offspring, the neo-Aristoteleans, such as Paolo Sarpi's Galileo and Antonio Conti's Isaac Newton.²⁶ No longer, must physics be misconstrued

interaction among processes which are, respectively, putatively non-living, living, and cognitive.

25. As John Locke aped Aristotle in the matter, and in the implications of this axiomatic presumption.

26. See Lyndon H. LaRouche, Jr., "How Bertrand Russell Became An Evil Man," *Fidelio* Fall 1994, and "How Hobbes' Mathematics Misshaped Modern History," *Fidelio* Spring 1966, passim. Galileo Galilei was the personal lackey and epigone of Venice's Paolo Sarpi; Galileo's empiricist method is that of his master, as of Sarpi's agent, Francis Bacon, Bacon's Galileo-trained intimate, Thomas Hobbes, and of John Locke after them. Abbot Antonio Conti (1677-1749) was the leading agent of Venice's intelligence services throughout Europe, from approximately 1708, until his death. Conti was the key figure behind those salons in France and Frederick the Great's Prussia which created the policies and reputations of Montesquieu, Quesnay, Voltaire, and Newton, and which deployed such famous agents of Venice's intelligence service as Giammaria Ortes, Dr. Samuel Clarke, the famous Casanova, and so on. The international fame of Newton, a dabbler in black magic, was created almost entirely by Conti and his salon (John M. Keynes, "Newton the Man," *Newton Tercentenary Celebrations* [Cambridge University Press, 1947]. Keynes, reporting on audit of the content of Newton's chest of scientific papers, wrote of his subject: "the last of the magicians, the last of the Babylonians and Sumerians."). Notably, what is commonly identified as British empiricism today, is that of Sarpi, Galileo, and their British students; this was derived from Aristotle, but Aristotle as simplified by Sarpi's favorite predecessor in this matter, William of Ockham. Earlier, a purely Aristotelean form of empiricism had been introduced to England by the Venetian monk famous as Henry VIII's marriage counsellor, Francesco Zorzi (a.k.a. Giorgi). As Kant explained in such locations as the Preface to the original edition of his *Critique of Pure Reason* and his *Prolegomena* . . . , Kant restored German empiricism after himself, to the standpoint of Aristotle as such. The Nineteenth-Century positivists, Romantics, existentialists, and phenomenologists are products of the influence of Kant's *Critique* . . . s.

as the individual's effort to situate observed mechanical behavior of objects as if these events had occurred within the descriptive mathematics of a merely presumed, "Euclidean" space-time. The relevant evidence shows, that the characteristic of man's successful efforts to increase his power over the universe around him, is rejection of Aristotle's influence, in favor of Plato's method of hypothesis, the method of Riemann, and of Leonardo da Vinci, Johannes Kepler, and Leibniz before him.

In turn, the characteristic feature of this successful increase of power, is due to valid, axiomatic-revolutionary advances in human knowledge, respecting physical (or analogous forms of) principle. These proven principles are, each and all, of the form of Platonic ideas, not empiricist ones. This poses that problem which has been central to physical economy since G. Leibniz founded the latter branch of physical science. The question posed, is: Since this evidence shows that we must not rely upon the mere repeatability of experiments designed according to Aristotelean or Galilean principles of empiricist mathematical physics, what is the method by which presumed knowledge of the universe must be proven?

The answer is a question: Does man's axiomatic-revolutionary change in notions of physical (or, analogous) principle, result in an increase of potential relative population-density, or does it not? The relevant question is: Is the faculty of creative reason, by means of which valid Platonic ideas are acquired, an efficient means for discovering those laws of the universe which every pre-existing mathematical physics must, invariably, violate? Is there any other method, by means of which, such axiomatic-revolutionary improvements in the demonstrable efficiency of human knowledge, might be accomplished?

The historical demonstration of these principles of physical economy discloses, that nature's increasing proneness for obedience to that expression of creative reason, shows that it is this method of hypothesis, as identified by Plato, Nicolaus of Cusa, Kepler, Leibniz, and Riemann, which is the source of man's dominion over nature. *That agency of creative reason, that domain of the method of hypothesis, is the principle which the universe is predesigned to obey.* That is the nature of the Great Experiment, in the domain of physical economy, from which all relative certainty in human knowledge is derived.

Man himself is the sole measure of the truth knowable by man: This is the fundamental principle of a science of physical economy. This is the proper, governing principle upon which all science and Classical forms of art depend.

How the future controls the present

Those preconditions met, we may now direct our attention to the fallacy underlying Arrow's failure to conceptualize his notion of future determining present. For this purpose, imagine two sets of curved surfaces, as follows.

There are two members of the first set of curved surfaces. The first, is a surface corresponding to the physics of the level of science achieved by society, as Riemann identifies this

functional notion of hypothesis, in his habilitation dissertation. This curved surface represents one of a series of hypotheses in the Riemann series $(n+1)/n$. The second, is a potential function: a curved surface corresponding to the changing relative potential productivity of the entire labor-force of a society which has realized the level of scientific progress associated with the first curved surface.²⁷ The loci of interaction between these two curves represents the characteristic action of the society associated with the two, correlated curved surfaces.

In the second set of curved surfaces, the first of two corresponds to the rate of Riemannian up-shift along the pathway of the $(n+1)/n$ series of scientific advances. The second curved surface, reflecting Plato's "hypothesizing the higher hypothesis," is the rate of increase of potential productivity correlated with the first of these two curved surfaces.

And, so on, as implied.

Consider the relevant application of Arrow's terms "present" and "future," to the notion of economic process appropriate to the interaction among the two sets of curved surfaces.

In the mechanistic, or empiricist/positivist notions of "causality," the "causal sequence of events" is fairly described as "percussive," or "kinematic." Preceding event A causes subsequent event B, which, in turn, causes a relatively subsequent event C, and so on. Thus, according to the dogma of the empiricists, to speak of the future, is to commit oneself to identifying some specific future event, or related condition. To speak of future affecting present, one implies, to the person conditioned into acceptance of empiricist-positivist dogma, the existence of some "force," which might act upon present, as one might imagine the present to cause the future (a kinematic action in "time reversal").

Arrow references the popularity of that reductionist "model," but he also states he is referencing something different than that, the effect of imposing the *idea* of the future time, to shape man's actions in the present time. Man chooses to do this, or to do that, according to man's idea of the effect of preferring one choice of action over the conceivable alternatives. Arrow's subsequent exposition on this theme, shows that he understands this idea in a crude, linear, if sometimes useful way; but, he shows no sensibility of the epistemological domain into which he has wandered.

The formal remedy for Arrow's axiomatic fallacy in this matter, is located, most efficiently, by beginning with the 1882-1883 *Grundlagen* and associated *Mitteilungen* of Georg Cantor.²⁸ Situate Cantor's notion of *transfinite* within

27. I.e., the author's concept of "potential relative population-density," as also described above.

28. *Grundlagen einer Mannigfaltigkeitslehre: Ein mathematisch-philosophischer Versuch in der Lehre des Unendlichen* (Leipzig: 1883) First published in 1882, minus the 1883 preface, as *Über unendliche lineare Punktmannigfaltigkeiten*; see *Georg Cantor: Gesammelte Abhandlungen mathematischen und philosophischen Inhalts* Ernst Zermelo, ed. (Berlin, Heidelberg: Julius Springer, 1932). pp. 139-247. For Cantor's *Mitteilungen zur Lehre vom Transfiniten* (first published, 1887-1888), see also Zermelo, pp. 378-439.

the setting defined by Riemann's habilitation dissertation. View this, as Cantor did, as a modern representation of the same type as the solution, in Plato's later dialogues, to the ontological, "One-Many" paradox of Plato's *Parmenides*. Express that usage of the notion of a mathematical-physical "transfinite," in terms of the systems of interacting, Gaussian curved surfaces identified immediately above.²⁹

Using Cantor's notion of the *transfinite*, as (once again) situated within the domain of Riemann's habilitation dissertation, consider what is wanting in Arrow's linear definition of an economic-functional notion of the future, his reducing the matter simply to a linear idea about the future. This conception of the way in which future may act efficiently upon the present, echoes Plato's notion of *hypothesizing the higher hypothesis*, and also, the revival of this Platonic principle of memory, with respect to music, of Ramon Llull's *Ars Magna*. That forewarning supplied, we now proceed.

Begin with the first set of curved surfaces, described above. In this case, the fact that we are operating, presently, under the governance of a choice of Riemannian hypothesis which is superior to some other choice, signifies a characteristic difference in result, in the consequent employment of each of the two, with respect to the state of affairs at *any* choice of future time.

Let us express each of the two hypotheses in terms of Leontief, or kindred styles of input-output tables, for the economy as a whole. The result will be a time-series of such tables. Each will represent a set of coefficients and constraints, and some corresponding standard for allocation of labor-force and other values to the production function for that set of parameters. The result of each cycle, relative to one input-output table, will be a new table, with changed coefficients, with changed constraints, and, also, with some new columns and rows, and, perhaps, the dropping of one or more pairs of columns and rows.

The governing consideration in such a "thought-experiment," or actual management decisions, will be the way in which the allocation function is ordered, throughout a series of changes, over numerous cycles.

For purposes of illustration, consider a simplified model of thought-experiment. First, the case in which the level of

technology employed (the *hypothesis*) is constant throughout the experiment, in which case technological progress occurs as the unfolding of the technological potentiality of a fixed theorem-lattice, through the addition of new theorems of that lattice to the technologies actually employed, either in the table as a whole, or as improvement of some among the columns and rows of that table.

In that case, one may conceive of an "horizon," some fairly selected number of cycles later, and compare the difference in result resulting from the choice of an allocation function based upon one principle, rather than another. This must be the physical-economic result estimated in terms of potential relative population-density (and associated demographic constraints) for the society considered as an entirety. The comparison leads us to the notion of a measurable definition of the "functional future," the measurable difference, in terms of potential relative population-density, between two allocation functions, over time.

In this case, the future appears to us in the form of a choice of pathway of unfolding development.

However, since all allocation functions which might be premised upon a fixed hypothesis are intrinsically entropic, one must treat the use of the first set of curved surfaces as a pedagogical exercise through which one prepares oneself to attack the notions associated with the second set of curved surfaces. Those notions may be introduced, for classroom or kindred occasions, in the following manner.

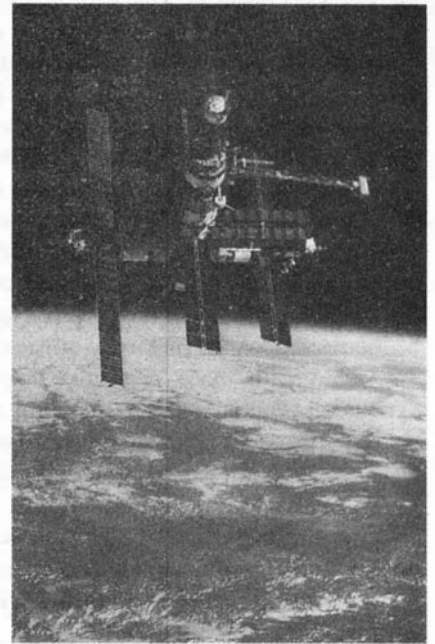
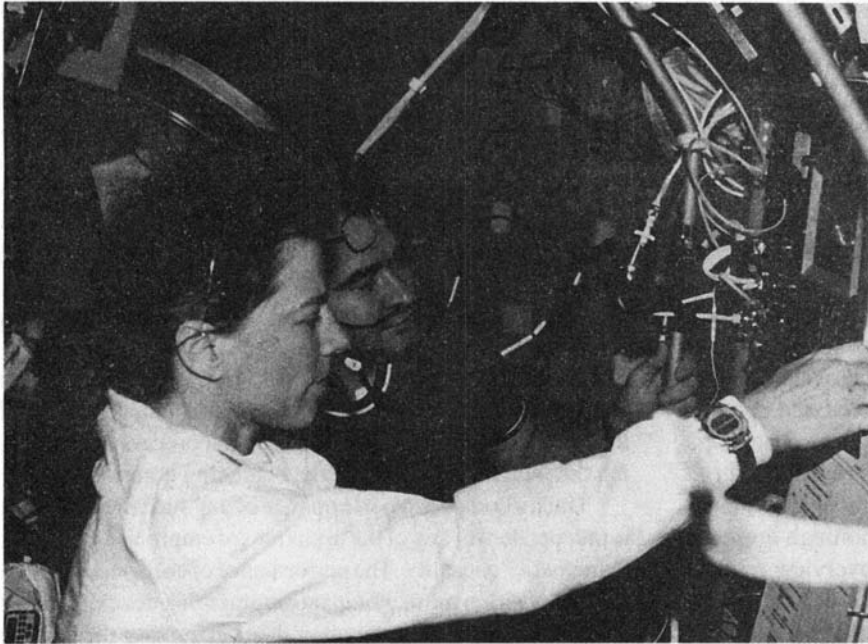
The implied set of axioms which expresses the underlying hypothesis of a theorem-lattice, represents a principle of change governing the effect upon the lattice as a whole, of the elaboration of each new acceptable theorem of that lattice. This is a fixed characteristic, akin to the *One* of Plato's *Parmenides*; this characteristic itself is not altered over the course of time. This is equivalent to a Riemann curved surface of constant physical space-time curvature of n dimensions, such as the first curved surface in the first set identified above.

The second curved surface, the potential function, in that same set, is a function of development in time. The relationship between the two curved surfaces of that set, indicates the nature of this function. For the circumstance that, during a certain period of lapsed time, the growth of potential relative population-density of a society occurs within a Riemann up-shift from n to $n+1$ dimensions, the increase of potential reflects extended development and application of the constant (technological) theorem-lattice. Thus, the potential changes in that manner (even for the case, that the characteristic of the technological hypothesis remains unchanged over time, from the beginning to the end—from *alpha* to *omega*—of that lapse of time).

Thus, for that case of first-approximation, the choice of a certain (e.g., technological) hypothesis, according to the set of inequalities and constraints I have provided (for example),³⁰

29. As a matter of pedagogy, this writer recommends the following background to the references to Gauss on biquadratic residues and general theory of curved surfaces, as met in Riemann's habilitation dissertation. Begin with the mathematically simple, but epistemologically profound, experimental-physical estimate of the size of the Earth's meridian by Eratosthenes. Examine Gauss's work on geodesy, and on related matters of astronomy and geomagnetism, in light of Gauss's work, beginning his *Disquisitiones Mathematicae*, on the subjects of biquadratic residues and curvature. (Note the connection of this to that work, on "non-Euclidean geometry," which Gauss fearfully suppressed during his lifetime.) The importance of this pedagogical approach, is indicated by the fact that Eratosthenes estimated the Earth's meridian more than two millennia before any man had seen the curvature of the planet: Taking the ancient Greeks' work on related subjects into account, the idea of curvature thus arose in human knowledge as a Platonic idea, not an Aristotelean or quasi-Aristotelean notion.

30. Lyndon H. LaRouche, Jr., *So, You Wish to Learn All About Economics?* Second Edition (Washington, D.C.: EIR News Service, Inc., 1995). *passim*.



Astronaut Bonnie Dunbar and cosmonaut Gennadiy Strekalov shortly after the July 29, 1995 link-up of the Russian Mir space station and the U.S. Space Shuttle Atlantis. Right: Rendezvous operations of Mir and the Space Shuttle Discovery. "The long-term realization of Russia's potential requires a science-driver 'crash program' of several decades duration, done with significant degree of cooperation with other nations. . . . It is probable, that a science-driver, long-range space-mission orientation, would be the most suitable kernel of such a science-driver orientation."

signifies a transfinite pathway, a potential curve of a certain curvature. Instead of measuring today's decisions against some conjectured event at some infinitely distant point, we measure in terms of the ongoing transfinite value, the characteristic of the potential function.

The second set of curved surfaces corresponds to a true "crash program" of task-oriented scientific development. This is the model of Plato's Athens Academy, over the less than two centuries of its scientific accomplishments, from Plato through Eratosthenes. This is the model of Leonardo da Vinci's life's work. This is the model of Kepler's development of the original form of a generalized mathematical physics. This is the model of Leibniz's life's work. This is the model of the work of Leibniz's followers, of the 1794-1814 Ecole Polytechnique, under the direction of Lazare Carnot's collaborator, and former teacher, Gaspard Monge. The U.S. Manhattan Project is also a relevant model of "crash program." So was the work of the German space-pioneers assembled by Dr. Hermann Oberth. My own 1985-1986, original design of a forty-year "crash program" aimed at initial establishment of a science-city colony on Mars, is an example of a most appropriate model of science-driver economic-development "crash program" for our planet today.

A true such science-driver "crash program," corresponds to the image of Riemann's $(n+1)/n$ ordering: choose, as a mission, some targetted accomplishment, whose realization demands a series of Riemannian phase-upshifts in science hypotheses. As outlined in earlier published locations and

classroom lectures, the several leading distinguishing features of a general design for such a science-driver "crash program," are as follows.

1. The pivotal requirement of such a program, is the adoption of some practical goal, whose realization requires the qualitative extension of the boundaries of scientific hypothesis, at the largest and smallest extremes of scale, respecting correlatable implications for each and all among putatively non-living, living, cognitive, microphysical, astrophysical, and macrophysical phenomena. The design of the project envisages the pathways of inquiry by which each and all of those implications are to be encountered and overcome.

2. The characteristic feature of the program for implementation of such a science-driver "crash program." This characteristic is located in the connection among crucial experimental apparatus demonstrating a new physical principle (or, related discovery), the derivation of a refined machine-tool principle from that experimental design, and the "spill-over" from the contribution to the mission-orientation, into the increase of the productive powers of labor in the society more generally.

3. The physical-economic characteristic of an appropriate design for a science-driver "crash program," emphasizes the necessary rise in physical elements of (market-basket) cost per capita, per household, and per relevant square kilometer of land-area, together with increased requirements for rising capital-intensity of mode, increasing power and power-density, and so on. These requirements must be satisfied under

the condition, that the ratio of “free energy” to (rising values of) “energy of the system” does not decline.

The succession of advances in respect to physical principle, corresponds to a Plato lattice of *Many* hypotheses, all ordered according to the notion of $(n+1)/n$. The *One* which subsumes that *Many*, is the relevant notion of *higher hypothesis*. The notion of variability of measurable effect of alternate choices of *higher hypothesis*, corresponds to the notion of *hypothesizing the higher hypothesis*. Here, our attention is to be focussed upon the hierarchy of Riemann curved surfaces associated with those respective hypotheses and higher hypotheses. Our attention to that array is focussed upon the physical-economic potential functions which are characteristic of each hypothesis and higher hypothesis considered.

As Plato and Ramon Llull indicate, Classical principles employed through methods of motivic thorough-composition, in music, illuminate the conceptual overview required for considering the example of the science-driver, “crash” program.

A motivic thorough-compositional work of the type associated with Wolfgang Mozart, Beethoven, and Brahms, exhibits a quality of required performance which the conductor Wilhelm Furtwängler famously named “playing between the notes.” This characteristic feature of such masterworks in music, emerges in the adoption of what Friedrich Schiller describes, for Classical tragedy, as a “germ” idea. The typical germ is a pair of musical intervals constituting a contrapuntal motive. Every part of the ensuing composing must be derived only from contrapuntal development of the initial germ-motive. The characteristic generation of apparent dissonances, serves as the stepping-stone for resolution in the development of new modalities out of the paradoxical relations generated from the preceding modalities. These dissonances have the significance of “formal discontinuities,” the equivalent of the mathematical discontinuities which signal the paradoxical intervention of some previously overlooked physical principle. This continues through a concluding such resolution, which resolves the process of development of the modalities of the composition, and thus brings the composition to its completion.³¹

In preparing performance of such a work, the performers must work through the process of motivic thorough-compositional development, up through the point of completion. At

that latter point, reached in that way, there exists a *metaphor*, the ironical Platonic idea which, in the mind of the musician, subsumes the composition as a whole, is the distinctive “soul” of the composition taken in its unity as an entirety. With this metaphor in mind, the performer must rework his way, from the initial, motivic germ, through each phase of the developmental process leading into the concluding metaphor. This metaphor, which is the “future,” relative to each preceding moment of the composition’s unfolding development, then acts, within the performer’s mind, to shape the performance of each present moment with the end metaphor in view. No element of the composition can be treated independently of the composition treated as a contrapuntal process of developing the final metaphor out of the beginning germ.

Thus, a competent performance of any such musical work is independent of any of the principles of empiricist-positivist, “kinematic” causality. The performance of each phrase within the composition must anticipate the emerging development of the concluding metaphor, rather than performing the passage according to purely local considerations. Hence, we must reference Plato’s principle of “musical memory”; hence, as Furtwängler insisted, every interval in the work as a whole must be performed “between the notes.”

In motivic thorough-composition, the process of contrapuntal development carries us, through resolutions, toward a final resolution, the metaphor defining the piece as a whole. This unfolding process should be recognized as an unfolding of ever-more complex modalities. Thus, what the performer is addressing, in presenting the opening germ, is not the modality immediately associated with that germ, but, rather, the entrance to the subsuming modality which will be affirmed at the close of that performance. Hence, with respect to the score as written, or as convention might imply a performance treatment of the passage, one must not play the notes; one must situate the passage within the process of generating the final modality, thus requiring an interpretation of that passage not as literally written, but as intended by the composer’s design: “between the notes.”

It is the same in economy. One must also “play between the notes,” according to the adducible principle of development which is carrying us from present into the future.

Thus, as in music, that “future,” which is controlling the “present” moment of development, is not the future of the Aristotelean’s absurd horizon at an infinite distance forward in time. The efficient “future” lives in the present, expressed as the superiority of one *transfinitely* characteristic ordering-principle over an alternate choice of ordering-principle.

That principle is the idea of “not-entropic” process as given functional form through the notion of the ordering principle of higher hypothesis central to Riemann’s habilitation dissertation. The coupling of that notion of the ordering of scientific and Classical-artistic progress, with the demographic principle of potential relative population-density, defines the action upon our minds through which the

31. In earlier locations, this writer has referenced his experience with this principle, beginning with Mozart’s Fantasy K. 475, and tracing this through such derived compositions as Beethoven’s Opus 111, and the related later compositions of Johannes Brahms. He has noted that it was the celebrated violinist, Professor Norbert Brainin, who solved the present writer’s problems in this matter, by supplying his own work of two decades or more in the matter of Joseph Haydn’s notion of *Motivführung*, the which set Mozart’s development of a Bach-referenced motivic thorough-composition into motion. See, Lyndon H. LaRouche, Jr., “That Which Underlies Motivic Thorough-Composition,” *EIR*, Sept. 1, 1995, and also, “Norbert Brainin on *Motivführung*,” *EIR*, Sept. 22, 1995.

future controls our steering of the economic, demographic present.

Emotion and science

Thus far, it has been stressed here, that physical economy is, in formal terms, an extremely sophisticated branch of physical science. It differs from the customary view of physical science, in the respect that the primary subject of economic science is the basis on which all scientific knowledge depends: The question, whether human knowledge is valid, is the question whether the method by which valid, fundamental discoveries of principle are generated, the human creative mental processes, do, or do not generate an increase in mankind's per-capita power in the universe.

Yet, physical economy also deals explicitly with that aspect of human emotion which is integral to the act of valid creative discovery in physical science and Classical art-forms alike. The science of the basis on which human existence depends can not detach itself from reality on the mere pretext of so-called "scientific objectivity." In physical economy, it is the subjective behavior of the human intellect itself, which is the primary subject of inquiry.

It is of crucial relevance to that point just made, that when we study the work of a formalist, such as Aristotle or Immanuel Kant, or of the typical Nobel Prize economist, or devotee of the cult of Bourbaki, we experience something akin to the sensation of looking into the eyes of a dead man. There is no real emotion there; the goal of Kant's devotee, the notorious Savigny, has been realized: absolute severance of art from natural science. The severance has left both art and science dead. In real science, as in real art, the vital sign is what Plato and the Christian Apostles John and Paul recognize by the Greek *agapē*, that powerful emotion which Plato associates with love of truth, love of justice, love of mankind, and, therefore, love of valid, axiomatic-revolutionary principles of art and science. The act of valid, axiomatic-revolutionary discovery of a new principle (or, original rediscovery of an old one), is among the most profound of the emotional experiences of which the human individual is capable.

The quality of deadness among the typical Nobel economist, is key to the sterility pervading most of the discussion by Director Markarov's U.S. interlocutors in the July 1995 transcript. Here, in the connection just identified, we find the cause of those economists' failure to comprehend the proper power of the future over the present.

This is demonstrated by comparative reference to the cases of the virtually aboriginal English empiricists, Hobbes and Locke. What is the passion of these two English gentlemen? Editing out the dirtiest parts, they share that perverse view of human nature which locates the governing principle of human behavior in an unexpurgated version of the Seven Deadly Sins. All human action in society is presumed, by them, to be so motivated by a very seamy sort of universal, individual "human nature": the war of each against all, in

pursuit of property-titles festooned with sordid entertainments. Thus, Hobbes, like Locke after him, degrades society to a kind of kinematic gas theory; from this, their empiricist notion of causality is derived.

On this account, the empiricists insist, "Hypothesis is not necessary." For them, the Seven Deadly Sins, situated in such a kinematic "gas theory" model of society, all set within the sausage-casing of "Euclidean space-time," is the single, unchangeable set of axioms underlying all human behavior, and that of nature in general, too. As for Hobbes, in particular, metaphor and the subjunctive are banned from all British institutions, together with hypothesis. From this, is derived the hedonistic calculus of the evil Jeremy Bentham, from Bentham is derived the dogma of James and John Stuart Mill, of Walras' Lausanne School, and the theory of marginal utility, and so on.

In contrast to these empiricists, *the history of mankind is the history of hypothesis*. Those discoveries of valid principle serve us as the spoor of *agapē*'s passion, for we know that every original act of discovery of a valid principle of science or art comes to us with that sort of passion of creativity, whether our experience of such a Platonic idea is the reenactment of the original discovery by one decades, centuries, or even millennia before our time, or an original discovery of our own. The passion which Hobbes and Locke impute to human nature, is that of the brutes, or worse; the passion upon whose efficiency the very existence of a human species depends, does not exist for such dead Englishmen as Hobbes and Locke.

What is the passion which drives the accomplished scientific worker? Money? In most cases, a scientist might have gained more money as a gangster, or crooked used-car dealer. Science, like Classical art, is a vocation which grips one with a powerful sense of personal identity in society, which seizes one inwardly with the passion of Archimedes' cry of "Eureka!" whenever some important breakthrough is achieved.

There are few great, or even merely very good scientific workers this writer has known, who did not also have a passion for Classical musical compositions, who did not partake of Plato's *agapē* love of truth, love of justice, love of mankind.

This topic was touched upon, from a different standpoint, by a famous U.S. psychoanalyst, Lawrence Kubie, in a series of studies centered around his book, *The Neurotic Distortion of the Creative Process*.³² The typical case, as perhaps painfully familiar to many among us, is the student who has a record of academic brilliance and promise, until about the time of final preparations for his terminal degree. About that time, or a bit later, his earlier creative promise vanished. His personality has changed; he seems no longer capable of recognizing his former self. Of him, we have said, "He has gone stale." A touch of Hobbes and Locke has crept into his person-

32. (Lawrence: 1958). See, also, L.S. Kubie, "The Fostering of Scientific Creative Productivity," *Daedalus* Spring 1962.

ality, and, it appears, the former creative, agapic self, has fled, abandoning the hulk of what had been.

The agapic, creative emotion, is as essential to scientific creativity, as to the composition and performance of Classical art. The U.S. counterintelligence agent and poet, Edgar Allan Poe, described the creativity of both the real-life and fictional Dupin, as “soaring.” That agapic impulse is, in direct contrast to the inhuman nature of Hobbes and Locke, the typically human emotion, the quality of mental life which sets the human species absolutely apart from, and above the beasts.

In his 1962 *Daedalus* essay, Kubie stressed the role of “drill and grill” in education, as contributing significantly to the loss of scientific creativity among formerly promising students. In other words: formalism, the substitution of “text-book education” of mere learning, for Classical humanist emphasis upon knowledge. Once the property-title of terminal degree and professional status (by whatever means) supplants the joy of discovery, the creative impulse appears to fall away, and the contemplative pedant appears. Little else seems more damaging than these considerations, excepting the dichotomy of art and science, argued by Kant, and legislated by his follower, Savigny. The replacement of Classical humanist education of the future citizen, such as that designed by Schiller and Humboldt, by the division of higher education and its preparatory phases between art and science, has been the most important source of induced sterility among the practitioners of both art and science.

Exemplary is the absurdity of popular economic dogma today. The characteristic immorality of the Nobel Prize economist is that of the fascist devotee of the Mont Pelerin Society, whose reckless disregard for human life is seen in his attempt to separate the idea of political-economic performance from the betterment of the human condition of mankind taken as a whole. The essence of real economy, physical economy, is the fact that only individual persons are capable of generating and assimilating those valid new hypotheses upon which we have depended, absolutely, for the uplifting of mankind from the level of several millions or fewer, beast-like hominids. To perform this function adequately, those persons must be developed to the degree this task requires. They must be educated accordingly, and they must be afforded the preconditions of environment, means of production, and household life consistent with the intellectual nature of their task. Above all, it is the whole society, whose potential relative population-density, and whose demographic characteristics, must be maintained and enhanced to that effect.

Experience has shown, the recent seven years experience, most emphatically: Economics without agapic passion, is not science, but, rather, today, as in Adolf Hitler’s heyday, a form of crime.

In summary

Most of what is taught, and accepted today, respecting the principles of economic policy, is nonsense.

The unprecedented improvement in the potential relative population-density, and associated demographics, of world humanity, has been a result of the emergence of the modern European nation-state, together with the impulse toward universal education, beginning the Fifteenth Century. The relatively most successful model of economy is what was formerly known as “The American System of political-economy,” as that was associated with the teachings and work of Benjamin Franklin, Alexander Hamilton, Mathew and Henry Carey, Friedrich List, and U.S. President Abraham Lincoln. In all the intervals of history that “American System” has been employed, it has represented what today’s economics doctrinaires prefer to identify as a “mixed economy,” as distinct from the former Soviet model, or the British “free trade” model. It can be shown, moreover, that all successful forms of modern economy has depended upon a very large role by the national government in the direction of the economy, and also the kindred role of regional and local branches of national government.

Indeed, without the “protectionist” form of nation-state, the world economy must continue to collapse. The essential role of the state includes the obligation to provide basic economic infrastructure, in providing an adequate, well-regulated, and well-defended currency, and associated credit system, in ensuring universal education, in promoting scientific and technological progress, and in organizing combined public and private institutions to provide an adequate health-care and public health institutions. Without these functions of the central nation-state, in the national and world economy, modern civilization would collapse into a global dark age, comparable to, but far worse than that of Europe’s mid-Fourteenth Century.

History has corroborated science, in demonstrating that the provision of basic economic infrastructure is an economic sector best assigned to sovereign national governments, whether in the form of direct governmental investments, or government-regulated public utilities. Experiments in deregulation have proven to be a mass-murderous farce. History has already demonstrated, that the most efficient generator of growth in agriculture and manufacturing, is the entrepreneurial, private firm which enjoys certain legal protection and related benefits from government, in return for the firm’s efficient dedication, by word and matching deed, to the performance of some public good.

In this division of labor between the state and the entrepreneur, the nature of infrastructural development and maintenance requires a long-term planning function in respect to that aspect of national economy. In the entrepreneurial sector, the principle of half-life of long-term investments in capital of productive capacity, and related considerations of rates of technological attrition, also require long-term commitments by government (respecting the government’s impact on conditions under which the firms will develop and function). Entrepreneurs also require assistance in estimating medium-

to long-term opportunities and conditions affecting their operations and investment commitments.

Otherwise, it were well said, that "free market" soon comes to signify "flea market," and also, criminality.

Those ostensible professionals who preach of "global economy," of "free trade," and all of the other ideological fantasies about economics in wide currency today, are charlatans. Most of the relevant professionals are charlatans, and their credulous clients dupes.

Russia, although presently in greatly reduced circumstances, is a world power. It is presently weaker than the U.S.A., but in the same tier of world power. The other world powers, are China, and the British Empire (Commonwealth). Although Russia is the largest nation on the planet, its comparative economic advantage is far less its extensive raw natural resources than the residue of the great military-scientific industrial complex which it built up under the circumstances of the 1930s-1940s, and the age of nuclear conflict. This scientific complex, if remobilized, represents the basis, not only for uplifting the productive powers of labor within Russia itself, but to supply an important, growing segment of the technology export wanted to transform the world's greatest concentration of population: Near, South, and East Asia.

Four preconditions must be satisfied, in order that the potential comparative advantage might be realized.

1. Russia's most obvious general economic deficiency is the lack of sufficient development of the basic economic infrastructure corridors wanted to conquer the vast land-area of European and Asian Russia and its "near abroad" partners. Without efficient infrastructural development, the underdeveloped vastness of this territory will virtually destroy the potential otherwise located within local industrial and agricultural production.

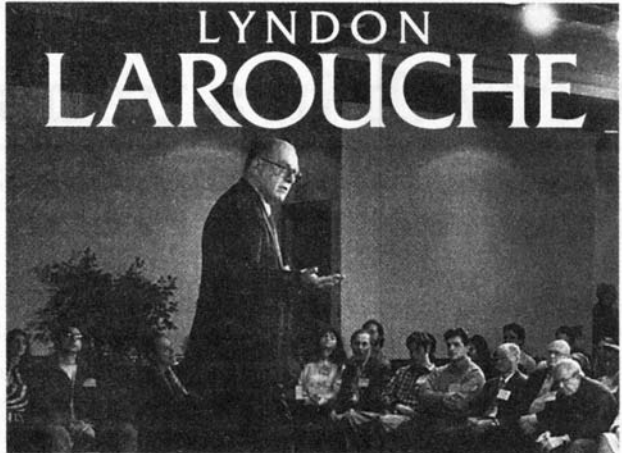
2. The most urgent task, to be undertaken with the development of infrastructure, is the build-up of Russia's national economic security in agricultural products.

3. The general development of manufacturing, and also agriculture, must allow Russia the protectionist regulation of its foreign exchange and trade wanted, to enable it to focus relatively scarce means for purchasing imports into those areas of the most critical internal economic bottlenecks.

4. The long-term realization of Russia's potential requires a science-driver "crash program" of several decades duration, done with significant degree of cooperation with other nations, to develop Russia as a source of new, more advanced generations of technologies for its own domestic use and its role in the international division of labor. It is probable, that a science-driver, long-range space-mission orientation, would be the most suitable kernel of such a science-driver orientation.

The challenge represented by the present condition of the world as a whole, most notably Africa and Asia, requires collaboration among leading world powers, and others, to establish a stable world political and economic order among

DEMOCRATIC PRESIDENTIAL CANDIDATE
LYNDON LAROUCHE



REPORTS ON HIS POLICY
**DISCUSSIONS
IN RUSSIA**

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perfectly sovereign nation-states. We must think ahead, in this matter, not less than two or three generations, perhaps even a century. We need Russia as a leading partner in that great venture on behalf of all mankind.

The future of humanity depends upon our willingness to scrap, immediately, the kinds of "New Age," "post-industrial," utopian delusions which have dominated the world's economic and related policies during the recent thirty years, especially the most recent twenty-five. The survival of mankind now demands a choice, between scrapping the present IMF-dominated system, or scrapping most of the human race, instead.

Admit that the "free market reforms" have been lunacy, and that the version of these reforms imposed upon Russia (among others) was intentionally mass-murderous. Scrap those reforms; scrap the "free trade" and "globaloney" lunacies. Not only allow Russia to adopt the protectionist reconstruction program urgently needed, but cooperate with Russia (and other nations) in working toward the success of that reconstruction.

As for the "medical advice" given to Russia by the IMF or by Nobel Prize economists generally, one must say of such practices, that carrying a deadly infectious disease, is not the kind of successful experience with sickness which qualifies one as a physician.

Growth in a transitional economy

Sergei Glazyev's 1996 report to the Scientific Council of the Central Mathematical-Economics Institute of the Russian Academy of Sciences.

Sergei Glazyev is chairman of the Democratic Party of Russia. Minister of Foreign Economic Relations of the Russian Federation in 1991 at the age of 31, he was the only member of President Boris Yeltsin's cabinet to resign in protest in September 1993, when Yeltsin abolished the Parliament and the Constitution. He was elected to the State Duma, the new Parliament, in December 1993, and headed its Committee on Economic Policy until December 1995. The Congress of Russian Communities slate, on which he ran for reelection, missed the 5% level required for entering the Duma.

As a government minister, Glazyev fought against the looting of Russian raw materials. Himself a graduate of the Central Mathematical-Economics Institute (CEMI) of the Russian Academy of Sciences, known as a hotbed of reform projects, he warned already in 1991 against "market romanticism" that promised "economic prosperity in not less than 1.5 to 2 years." Government shock therapy reforms were implemented by Prime Minister Yegor Gaidar, starting in January 1992.

While serving in the Russian government and the Duma, Glazyev continued to collaborate with CEMI, and he still does. His report to CEMI's Scientific Council, "The Theory of Economic Growth in a Transitional Economy," was released to the public on April 29 of this year. This scathing exposé of the Russian economy's destruction under "the ideology of radical liberalism" is excerpted here, with the author's permission. (Readers can find earlier programmatic material from CEMI in EIR, Aug. 25, 1995, where we published Academician Dmitri Lvov's report, "Toward a Scientific Grounding for Economic Reforms in Russia," with Lyndon LaRouche's introduction, "The New Role for Russia in U.S. Policy Today.")

*Glazyev uses terminology from the so-called long-wave school of economic research, initiated by the Russian N.D. Kondratieff (1892-193?—he died in a Siberian prison camp), and continued by Harvard's Joseph Schumpeter (1882-1950) in his 1939 book, *Business Cycles, and others*. Glazyev terms successive sets of technological innovations, dominating the economy during given periods, each as a single *uklad*, which may be translated as "structure," "mode," or even "vintage." Here it is rendered "structure," or "structure-period," when necessary to distinguish the term from other words for "structure" in the surrounding text.*

Quotation marks denote paragraphs translated verbatim. All other sections paraphrase Glazyev's text. Editorial interpolations are in [brackets]. Major subheads are the author's; others have been added. The graphics have been renumbered, since not all illustrations in the original paper were used.—Rachel Douglas

"Economic growth is the natural goal of economic policy in any country. In our country, however, for several years economic growth goals have been pushed to the back burner, not even mentioned in official programmatic documents. Liberalization, privatization, stabilization, and other sorts of economic policy took the place of goals, as a result of which economic policy became meaningless; it turned into a chaotic array of poorly interrelated lines, each carried out independently from the others. Indicators such as quantity of enterprises privatized, inflation, reduction of customs duties, portion of prices decontrolled, and others that reflect the implementation, as opposed to the purposive component of economic policy, have been used as evaluative and accounting indicators, in place of indicators showing the standard and quality of living, volume of production activity, scientific and technological progress, and economic efficiency. With this kind of approach, those in power lose their natural guideposts; in the midst of a catastrophic collapse of production and the standard of living, and the destruction of the country's scientific and defense potential, they report on alleged successes, relying on limited and inherently meaningless indicators of the portion of firms privatized or prices decontrolled.

"In recent months, there have been symptoms of those in power coming to their senses, in some measure: Official programmatic documents more and more frequently mention the desirability of economic growth. But, so far, this has not gone beyond general talk; goals of economic growth have not yet assumed the main place in actual economic policy. Nor has there been any conscious reflection upon the mistakes that were allowed, which must be corrected in order for there to be a shift to economic growth. On the contrary, the notion is being promoted that a deep economic collapse and the impoverishment of the population are natural, even objectively predetermined, in a period of reforms. As a result, reforms become meaningless, although if they were carried out with some literacy, both foreign experience and our own show

convincingly that the people's welfare would rise and a growth of consumption take place. So it was in Russia at the beginning of the century, in Germany and Japan after the war, and so it is now in China, Vietnam, and other countries, where economic liberalization was accompanied by rapid economic growth. World experience convincingly demonstrates the interrelationship of successful reforms and economic growth: The consolidation of new economic institutions and forms of economic management is possible only through a process of natural selection, where the criteria are the increase of economic efficiency, and growth; conversely, a deterioration of the economy as a result of its reform breeds a counter-reform and the rejection of those new forms of organization of economic activity, which have proved to be unviable.

"This paper examines the theoretical foundations of the actually implemented policy for transition from an economy managed by directive to a market economy, analyzes the reasons for failure and the missed opportunities, and establishes the theoretical preconditions for a growth policy in a transitional economy."

Objective and ideological preconditions for the transition

The transition from an economy managed by directive to a market economy in the area of one-third of the planet was motivated by the aspiration of the elites in those countries, to make their national economies more effective, raise the standard of living, and improve the competitiveness of their enterprises. The gap between the developed, primarily market economies and the CMEA [Council for Mutual Economic Assistance, also known as Comecon] members grew rapidly in the 1970s and 1980s, for all of these parameters. The U.S.S.R. lagged 10-15 years behind the developed capitalist countries during the 1960s, but 20-25 years by the mid-1980s. This was the result of lawful phenomena in an economy managed by directive: low investment activity, prioritization of sector expansion, super-bureaucratization of management, ossified decision-making procedures. These led to economic resources being locked into the reproduction of obsolete technologies, the lack of correspondence between demand and the structure of production, and the deceleration of scientific and technological progress.

With these growing disproportions and the slowing of scientific and technological progress and growth, there was a search for new economic policies. From the outset, this search was influenced more by ideological dogmas, than by modern knowledge about the lawful functioning of real economic systems, mechanisms of growth, and scientific and technological progress. In the first half of the 1980s, attempts to overcome the depression tendencies were made in the traditional manner for an economy managed by directive—changes in



Sergei Glazyev: "The notion is being promoted that a deep economic collapse and the impoverishment of the population are natural, even objectively predetermined, in a period of reforms. As a result, reforms become meaningless."

the centrally determined priorities, and reallocation of resources in favor of the science-intensive sectors of industry. These attempts at solving the accumulated disproportions by centrally planned modernization, made under the slogan of "acceleration," ran up against the production-sector systems, whose interests continued to dominate economic relations. "Acceleration" affected only a small portion of centrally allocated resources.

The failure of "acceleration" shed light on the underlying causes of the depression. This stimulated attempts at reform of the institutions and economic mechanisms of the system. In this phase (second half of the 1980s), the search again went forward within the limits of traditional ideological stereotypes, without breaking out of the framework of the officially approved postulates of socialist political economy. In accord with the tendencies for the increased independence of enterprises, developed since the mid-1970s, it was decided to broaden their independence regarding price formation, supply of materials and machinery, and allocation of earnings, while they remained administratively subordinate to the industrial-sector ministries. The economic authority of state and party management bodies was reduced. Citizens received the right to engage in individual labor and cooperative activity.

Despite these seemingly radical innovations, the system of state planning and resource allocation was practically unchanged. The result was the weakening of centralized economic management and strengthening of the economic power

of state enterprises, while mechanisms of responsibility were attenuated. This led to greater material and financial imbalances, while the state budget deficit and inflation grew.

Contrary to design, the outcome of this phase of economic reform was a strengthening of agency authority; under pressure of lobbying from production-agency systems, the adoption of irrational decisions at the higher levels of state power became more probable. Under these conditions, weakened state control could only aggravate disproportions in the national economy.

In the transition to the next stage of reform, at the end of the 1980s, ideological considerations continued to dominate, despite the non-correspondence of intentions and results. Now, the ideological notions were revised, in favor of the previously much-criticized scheme of "market socialism." This meant radically expanded independence for state enterprises, replacing their administrative subordination to agencies, with responsibility of enterprise managers to their labor collectives, who received a number of key prerogatives of a property-owner, respecting the allocation of state resources.

In a highly monopolized economic milieu, with uncompetitive products and with continued central control over price formation and resource allocation, the consequence of this innovation was a shift in enterprise behavior, toward the use of current incomes for consumption, at the expense of the enterprises' long-term development. The enterprises acquired greater ability politically to pressure central and regional government agencies for special privileges. The conception of "regional cost accounting," then in effect, strengthened this tendency.

The new forms of production relations—state enterprises, managed by their labor collectives; cooperatives; self-managed public organizations—were varieties of enterprises managed by their labor collectives. Theory and practice show that this form of property has serious limitations.

Rapid and efficient development of a market economy is based on innovation and resource reallocation from inefficient spheres to efficient ones, under the pressure of competition on commodity, labor, and capital markets. Collective enterprises, as a rule, are sluggish in reacting to conjunctures. The circulation of capital is slowed by its dissipation, and the lack of interest, on the part of the large number of people determining its allocation, in the maximization of profit. Labor collectives are interested in continuing the reproductive process, regardless of its efficiency. In an economy of self-managing enterprises, it is difficult to create a property-titles market, which is the basic capital market. This inhibits the development of an effective credit system, in the absence of accurate indicators of the market value of various products. The underdevelopment of institutions that enable productive accumulation to take place, as well as of those that integrate independent economic subjects for the purpose of raising their efficiency and rationalizing social production, determines that a system based on self-management will have low recep-

tivity to scientific and technological innovation, which, in turn, creates serious problems for economic growth.

Collective forms of property ownership do have certain advantages, especially respecting activation of "the human factor" in personnel management. But these only emerge in an economic milieu that has functioning competition mechanisms, credit, and a state policy for the promotion of scientific and technological progress. This milieu was absent.

Not surprisingly, the development of market relations under such conditions was destructive. The now more independent state enterprises adopted decisions that were irrational, from the standpoint of efficiency or the growth of social production.

The domination of ideological postulates, while objective economic laws were ignored, yielded disappointing results in these attempts to shift from an economy managed by directive to a market economy. The ideologically determined schemes failed, when they collided with reality.

It would seem, that the failure of the ideological approach to economic policymaking should have led to its replacement by a pragmatic one, based on the objective lawfulness of economic function. Instead, it was decided that the ideology in use was faulty, and should be replaced by a different one. The ideology of radical liberalism was selected; it was based on the formal theory of market equilibrium, and implemented in the form of "shock therapy." This ideology presumes free competition, and that persons and institutions active in the economy are rational and adequately informed. Its theoretical model attempts to prove the self-sufficiency of the market's self-organizing mechanism, for achieving optimal production efficiency. State regulation in any form is viewed as not only superfluous, but harmful.

The limitations of the neo-classical theory of market equilibrium are well known; its inadequacy to many facts of economic reality has been proven repeatedly, as has its inability to explain such phenomena—key for economic policy—as scientific and technological progress or economic growth, the unevenness of economic development, and the differences in the level of development from nation to nation. This theoretical conception also fails to take into account such fundamental facts of the real economy, as that economically active persons and institutions do not always behave rationally.

It is, therefore, no surprise that "shock therapy" based on radical liberalism failed to deliver. The prognoses of its authors failed to materialize—a failure unsurpassed in the history of economic forecasting. They forecast price stabilization at triple the pre-existing levels; since then, prices have increased thousands-fold, with no stabilization. Politicians forecast stabilization of the ruble at 80 rubles to the dollar; today it is around 5,000 rubles to the dollar. Rapid growth of production efficiency, with privatization, was forecast; in the event, efficiency has fallen in every area: productivity of labor in industry by 37%, power yield by about one-third. This holds for privatized enterprises, as well as those still in the

FIGURE 1
Volume of GDP output
 (index 1990=100)

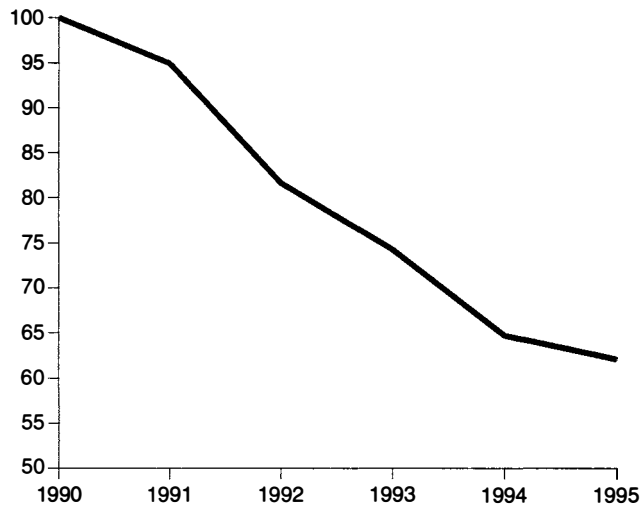


FIGURE 3
Volume of productive capital investment
 (index 1990=100)

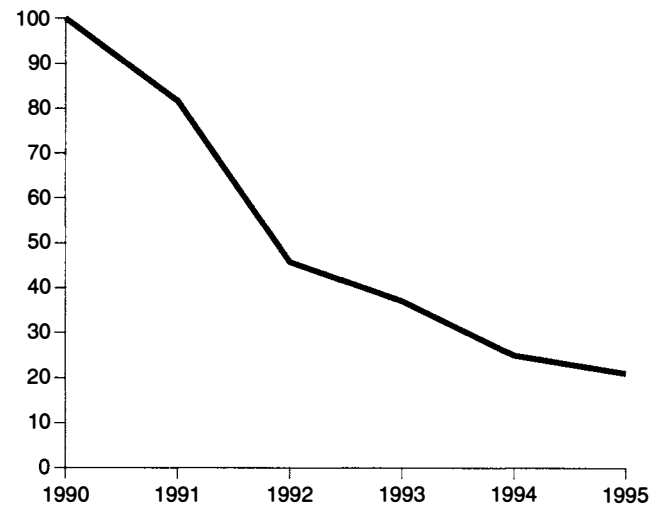


FIGURE 2
Volume of industrial production
 (index 1990=100)

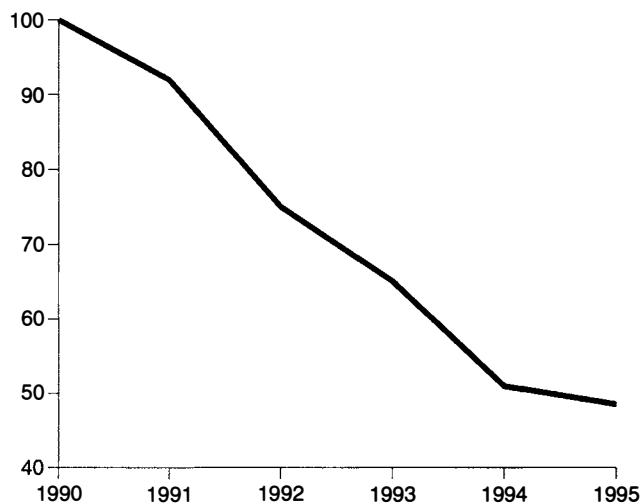
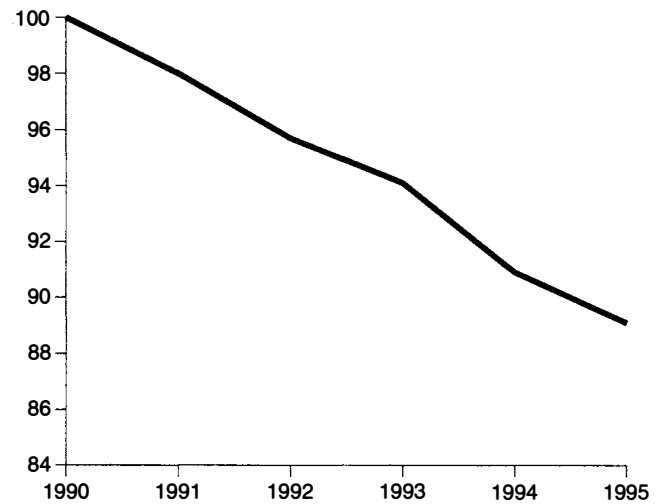


FIGURE 4
Employment
 (index 1990=100)



state sector. "The collapse of production, provoked by 'shock therapy,' the decline of economic efficiency, and the destruction of the production capacities of countries subjected to this experiment, are unparalleled in peacetime economic history" (Figures 1-4).

In 1994-95, the gap between forecasts and actual results has reached threefold for inflation, twofold for the collapse of production; for investment activity, reality was in the direc-

tion opposite to what was forecast. Prognostications for real incomes and the standard of living were no better.

This is natural, given what the radical liberal ideological doctrine leaves out of account. In particular, it ignores motives for the abuse of monopoly positions in the market, the lack of competent courts, the criminalization of the economy, low competitiveness of production enterprises, the real structure of the money supply and circulation, the lack of correspon-

dence between supply and demand, structural disproportions, and much more.

“It is striking, that in our rational and pragmatic age, abstract ideological dogmas, far removed from reality, serve as the basis for economic policy instead of objective analysis and the modelling of actually existing interconnections. The content of economic policy has become extremely primitive. It reduces to a mechanistic adherence to three postulates: the liberalization of economic activity, the privatization of state property, and stabilization by means of formally planned increases in the money supply. This is done without taking into account the impact of price decontrol on the behavior of the monopolies, of foreign trade liberalization on the competitiveness of domestic enterprises, of the privatization of enterprises on their efficiency and market opportunities, of planning of the money supply on interest rates and investment. Naturally, this approach to economic policymaking dooms it to failure, in the achievement of planned results.

“It is worth examining the reasons for such strong ideological influences on economic policy. While its exceeding ideologization in the 1980s could be explained by the Party’s influence, today there are no objective reasons for this. Moreover, the interests of the overwhelming majority of society, of goods producers, workers, and the intelligentsia, require a completely different policy, which the ruling elite consistently rejects in favor of abstract ideological dogmas. At one time, such an approach was applied in our country by the Stalinist leadership and the Bolsheviks, in the period of collectivization, nationalization, and industrialization—with approximately the same results for production dynamics and the population’s standard of living.”

The IMF model

“The ideology of radical liberalism, consistently implemented in the former CMEA countries and known as the ‘shock therapy’ strategy, is a variety of the so-called Washington Consensus policy, developed by the IMF [International Monetary Fund] for backward Third World countries. It is distinguished by an extreme primitivization of economic policy, which is reduced to the three postulates: deregulation, privatization, and stabilization through strict formal planning of the monetary base. This policy is aimed at the maximum curtailment of the state’s role as an active subject of economic influence, and the limitation of its control functions over the dynamic of money supply indicators. And although the latter are usually set from above, and are systematically lowered for the purpose of combatting inflation, everything is sacrificed for their sake: Social spending is slashed, the financing of science is stopped, state investment programs are shut down, state purchases are not financed, wages are not paid on time, and so forth.”

The Washington Consensus principles were designed to establish elementary control over economic policymaking in

underdeveloped nations, to prevent foreign credits from being squandered. This explains its amazingly primitive character, where all questions of macroeconomic policy are reduced to formal planning of the money supply. The IMF was not so much interested in the content of policy, as in the ability to control the actions of these countries’ governments. Setting an austere target for growth of the money supply, the IMF blocked the governments’ freedom of action on all other economic policy questions. This policy did not lead to economic growth, but it ensured control, which was desirable for international finance and trade capital interested in controlling the markets of those countries.

“We were no exception to this roster of dependent nations. Under pressure from foreign creditors, the Russian leadership accepted the leading role of the IMF in shaping the economic policy of the state; for five years, its parameters have been set by IMF experts, and only subsequently confirmed by the government and the Central Bank with the relevant statements. There are no objective grounds for following such a logic in the planning of economic policy; it is a question of competence and of political choice.”

This primitivism ignored not only international experience and knowledge, but our own. This might be understandable in some underdeveloped nation, lacking a scientific community of its own, but for scientifically advanced Russia, with its own rich historical experience and world-famous schools of science, it is not.

The scientific paradigm known as “evolutionary economics,” is relevant today. It views the economic development trajectory as determined not by the static problem of achieving economic equilibrium, but by the entire preceding evolution of the economically active subjects, acting in a given economic environment. The behavior of economically active subjects is viewed as a variable, determined by the set of production possibilities, together with decision-taking procedures and the economic environment.

This paradigm may be applied to the Russian economy in a state of transition, both to describe it and to formulate practical economic policy recommendations.

Missed opportunities

“History, as is well known, does not recognize the subjunctive mood. Nonetheless, in the shaping of economic policy today, in order to avoid repeating the mistakes of the past, it is important to have a concept of their actual consequences.

“One of the widespread justifications for the negative consequences of the ‘shock therapy’ policy is the thesis that a supposedly inevitable catastrophe for the country loomed at the end of 1991, as well as that the crisis collapse of production was inevitable under any other economic reform

scenario. The apologists for the regime's policy also love to talk about earlier missed opportunities for a transition to a market economy—at the end of the 1970s or even the end of the 1960s, when, in their opinion, there still existed the possibility of a gradual, evolutionary entry into the market.

“Superficially, the thesis on the temporal limitation of possibilities for reform appears plausible. But this is the logic of revolution (as Lenin put it when he decided on the date for the October Revolution: Oct. 24 would be too early to organize the uprising, and Oct. 26 too late), which has the relevant socio-psychological explanation, but lacks any serious basis in economics. No doubt, had the famous October 1991 nighttime conversation of Burbulis with Yeltsin, on the formation of a government, taken place one day earlier or one day later, then Gaidar, perhaps, would not have been appointed chief reformer and the choice for ‘shock therapy’ would not have been made. But, in that case, there would hardly have been an economic catastrophe or an economic collapse more severe, than what occurred in reality.”

Our research shows [the author cites his 1993 book, *The Theory of Long-Term Technological-Economic Development*] that the U.S.S.R. entered a depression during the first half of the 1980s. The U.S.S.R.'s technological lag became more pronounced. Both phenomena were related to the shift of technological structure-periods in the developed countries, which occurred in the 1970s. The wide dissemination of basic technologies from the new technological structure (computerization, automation, informatization of production) led to improvements in efficiency.

The transition failed to happen in the U.S.S.R., where the existing organization of the economy blocked such a large-scale reallocation of resources and dissemination of new technologies. It was the collapse of the attempt to carry it out anyway, under “acceleration,” that prompted the reform attempts of the mid-1980s. Albeit with difficulties, until that time the process of economic expanded reproduction had continued well enough for the rise of living standards, defense production, and economic growth to continue.

The transition from one technological structure-period to the next is characterized by structural crises and economic depression. Behind the visible depression, however, there is an increase in innovative activity, dissemination of the next structure's technologies, the replacement of obsolete technologies, and the formation of new consumer preferences and markets. The depression ends, when the growth of production for the new structure begins to dominate. Sectors from the previous structure may survive in a state of crisis, until they are modernized and adapted to the new technological period.

By the early 1980s, the Soviet economy was multi-structured, with simultaneous reproduction of three technological structures. The first of those (the third, according to the generally accepted chronology) was created during the years

of industrialization, then largely reproduced during postwar economic reconstruction. Its key elements were the electrification of production, the development of machine-building and metals-processing, the use of steel as the main production material, coal as the primary fuel, and rail transport. In the developed countries, this structure reached the limits of its development in the 1920s, and gave way during the Great Depression to a new technological structure, based on the chemicals industry, specialized machine-building, the use of plastics and non-ferrous metals, increased consumption of petroleum, and automobile transport. In the developed countries, this technological structure reached the limits of its development in the 1970s.

In the U.S.S.R. at that time, this technological structure was in the middle of its growth phase, but the rate of growth was lower than it had been in the capitalist countries, because the economy managed by directive lacked a mechanism for the timely shift of resources out of obsolete production technologies into new ones. Meanwhile, a new technological structure began to emerge, in both the U.S.S.R. and the developed Western countries, based on microelectronics, automation, utilization of pre-fabricated construction materials, increased consumption of natural gas as the main fuel, and a rising role for air and pipeline transport. Unlike in the capitalist countries, where the formation of this technological structure was accompanied by overall modernization, in the U.S.S.R. it took place while reproduction of the previous technological structures continued and even expanded, tying up limited resources.

The U.S.S.R. slid into a depression, as a result of these growing disproportions, and the technological gap between the U.S.S.R. and the developed countries threatened to become larger. The necessity of reform, however, by no means determined some inevitable economic catastrophe, nor did it dictate “shock therapy.” On the contrary, there were decent possibilities for an evolutionary reform of the economic system.

In the 1980s, CEMI proposed systems for the evaluation and choice of lines of scientific and technological progress, the creation of a non-state sector of the economy, reform of the legal and organizational structure of industry through converting enterprises to joint-stock companies and the development of major, mixed-ownership firms that would be competitive on the world market, the stimulation of export and heightened competitiveness of science-intensive types of production, and the gradual deregulation of prices, while control over price formation would be maintained in the highly monopolized sectors.

“It was our general view, that a shift to market principles ought to be accompanied by the creation of new opportunities for economic growth. Indeed, the creation of favorable conditions for developing private initiative, given a low degree of saturation of the consumer market and cheap pro-

duction resources, would have to entail a rapid upswing of economic activity. In order to create new growth spots, there ought to have been supplementary measures to stimulate innovational activity, reorganize industrial enterprises in the science-intensive industries into complex concerns, and implement structural reorganization programs for the economy, based on key technologies of the new technological structure-period. We viewed any economic reform options entailing a probable collapse of production in excess of 15%, as unserious and politically unacceptable.”

Based on our analysis of the technological and production possibilities, and estimates of the probable growth of economic activity in the non-state sector, we had an optimistic view of the prospects for economic reform; we anticipated net growth. An evolutionary strategy could succeed, if there were conscious stimulation of growth of output in the area of the new technological structure and the private sector; its positive effect would “outweigh” the negative consequences of the inevitable decline of production and employment in obsolete and depressed sectors.

“In other words, with an appropriate economic policy, it would have been possible to anticipate not only the amelioration of negative consequences of the transition crisis, but an upswing of economic activity in promising branches and sectors of the economy, which would have guaranteed sustained and high economic growth into the foreseeable future. Importantly, that growth would have been based largely on the key technologies of the new technological structure, on a world market scale from the outset, thus raising the competitiveness and the stability of the national economy. It is hard to estimate what economic growth rates might have been possible, under such a policy. Perhaps the inevitable decline of production in obsolete and loss-making sectors of industry would have exceeded expanded production in science-intensive industry and the service sector for some period of time, while the increase of investment in the conversion of science-intensive industry and the modernization of obsolete capacities would have restrained the growth of consumption. It is also difficult to calculate the impact of the probable influx of foreign investment, had political and economic stability been preserved during a gradual and evolutionary reform of the economy. It is clear, however, that there would have been no avalanche collapse, such as the one that occurred as a result of the chaotic ‘shock therapy’ policy.

“Modelling and estimates by the Institute of National Economic Forecasting show that, even without major changes in the institutional structure of the economy, it would have been possible to anticipate only a very slight decline of production during the first half of the 1990s.”

A sensible economic policy should have made it possible to expect a continuation of the depression with “zero growth” in 1992-94, followed by economic recovery on the basis of expansion of the new technological structure in 1995-96, and

the achievement of stable 7% per annum growth beginning in 1997. Growth rates for production in the area of the new technological structure should have been 10-30% per annum.

“The implementation of the ‘shock therapy’ strategy destroyed the contours of economic relations, which maintained the reproduction of the economy’s technological structure. The collapse of existing economic links, the explosive growth of prices, the devaluation of enterprises’ circulating capital, the steep reduction of state spending and final demand, and the spontaneous mass privatization of state enterprises, could not fail to cause an abrupt collapse of production. Enterprises were unable to adapt to such rapid, radical changes in the economic environment; they lost their ability to plan their activity, they were deprived of their traditional suppliers and markets, not to mention their ability to support an independent R&D cycle. Their natural reaction was to shut down production, refuse to pay their suppliers and the state on time, and reallocate revenues to current consumption, ceasing investment.

“At the same time, the collapse of the previously functioning contours of economic relations created possibilities to seek new potentialities for technology and production, and to master new types of product and the markets for them. Possibilities opened up for the rapid reallocation of resources out of obsolete and loss-making production, into promising technologies of the new technological structure and the formation of ‘locomotives of growth’ on this basis.”

Three ‘last chances’

There were three moments of opportunity for economic recovery, after the shock of overnight deregulation in 1992. The first came in late 1992-early 1993.

Industry had recovered from the first blow of “shock therapy” and firms were beginning to adapt to market conditions; a certain degree of order had been established in the ruble zone, and inflation had abated. The conditions for a production upswing were far more favorable than today: raw materials prices far below the world market, high competitiveness of domestic products thanks to the relatively low rate of the ruble, a lower real interest rate, and less idle productive capacity.

There was some degree of recovery, especially in consumer goods production and some sectors of machine building, which began to grow at an annual rate of 10-20%. The export of machinery rose, as the conversion of defense plants bore its first fruit. An economic policy was needed, however, that would be oriented to the interests of domestic goods producers, increased investment levels, scientific and technological progress, and the formation of the reproductive contours of the new technological structure.

There was no such policy. The artificial stabilization of the ruble’s decline, alone, reduced the competitiveness of Russian goods producers threefold between the spring of

1993 and the summer of 1995. For the sake of curbing inflation, the government—subject to no effective supervision by Parliament—resorted to non-payment for already-filled state orders and the delay of wages to budget-rostered employees. Many state programs, especially investment programs, were simply shut down, while significant budget revenues were diverted to illegally granted import duty and other tax breaks. From September 1993 to May 1994, industrial production fell by one-third.

The second chance for economic growth emerged in mid-1994, when there was a certain stabilization pause, associated with reduced inflation and the seasonal recovery of production. Science and technology had already suffered grave setbacks and much of the domestic market was lost, but there was still some possibility to stimulate growth spots. It was not exploited.

“Instead of beginning to create conditions for the revival of production after its abrupt decline, the government blindly capitulated to the IMF’s credit and foreign economic policy recommendations, refusing to pursue an active investment policy, defend the domestic market, or stimulate production. Formal planning of the money supply on the basis of primitive models, taking into account neither the structure of that money supply, the behavior of those with monopoly control [in various economic sectors], nor the structure of the gross product, in combination with the policy of artificially restraining the fall of the ruble, ended lawfully in ‘Black Tuesday’ [Oct. 11, 1994, when the ruble collapsed by 25% overnight] and the latest destabilization of the economic situation.”

The third missed chance came in the spring of 1995, when instead of action to defend the market and stimulate export and investment, the government again abided by the IMF’s recommendations and postponed long-overdue measures into the indefinite future.

Barriers to growth

The “shock therapy” policy blocks economic growth possibilities along several lines at once. First of all, strict planning of the money supply, without attention to idiosyncrasies such as non-payments and the fact that the amount of foreign currency in circulation exceeded the official money supply, led to underestimation of the rate of inflation and consequent over-restraint of the money supply. This fanned inflation, creating an artificial credit deficit and rise in interest rates. These phenomena sharply reduced investment and innovation, as credit became more costly.

Secondly, the artificial support of the ruble’s exchange rate proportionately reduces the competitiveness of domestic enterprises, subverting their possibilities to modernize and adapt to the new economic environment.

Thirdly, the steep decline in state spending, especially in any areas other than social needs, leads to a steep reduction of expenditures on scientific R&D, which adversely affects

the potential for economic growth.

Fourthly, the decontrol of prices enabled the relatively more highly monopolized raw materials sectors to hike their prices, radically shifting price proportions in their favor and undercutting the competitiveness of manufacturing industries.

“With each year that the policy of the Washington Consensus is continued, the possibilities for independent, stable economic growth diminish. The economic development trajectory assumes the form of a narrowing spiral, with consecutive cycles of production collapse, interspersed with brief stabilization pauses. As the economy is primitivized and whole sectors of our economy perish, the depth of each such cycle becomes less, moving to the limit of ‘zero growth,’ which is mistakenly viewed as stabilization. In reality, the decline of the rate of collapse is explained by the purely statistical effect of a total reduction in domestic production, which is reflected in an ever lower base from which to calculate the annual rate of collapse.”

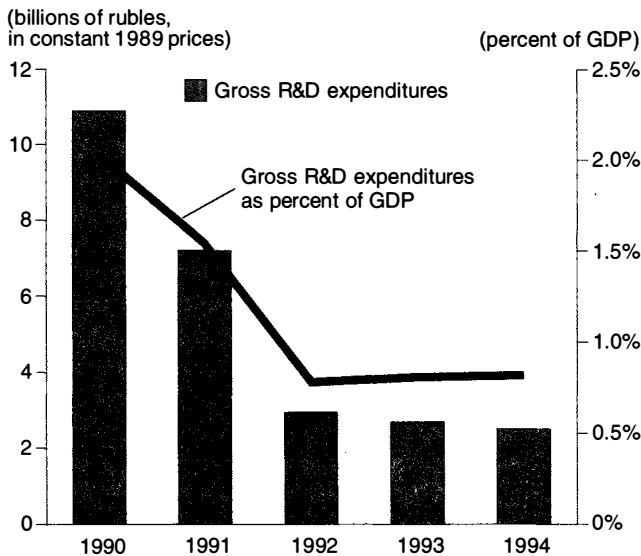
No coherent economic reproduction structure has arisen, to replace the contours of economic relations, which collapsed abruptly four years ago. The economic system has disintegrated into disparate, weakly interlinked elements, each trying independently to adapt to a chaotically changing economic environment.

Manufacturing in the area of the new technological structure suffered the most, since at the moment that “shock therapy” was implemented, it had not taken shape; these industries were limited to state demand, chiefly from the military. With the shutdown of any state structural or innovational policy whatsoever, and the steep reduction of spending on scientific R&D (**Figure 5**), these branches of production went on “starvation rations.” Their ability to adapt to the changed environment was blocked both by the surpassing rate of price rises for fuel, raw materials, and semi-manufactures, and the reduced competitiveness of their products, and by the seizure of the domestic market by foreign companies. The rapid devaluation of circulating capital and the increase in the interest rate for credit closed the door on their possibilities to attract investment for the readaptation of viable enterprises to the changed conditions—through conversion, introduction of new product-lines and technologies, or qualitative improvements.

Thus, activity for the new technological structure was simultaneously cut off from its sources of raw materials and equipment, its markets, and its sources of credit. It is not surprising, that most of these enterprises perished, either going bankrupt, or reorienting to the production of more primitive output with a short production cycle. Among the basic industries of the new technological structure, the electronics and instrument-building sectors, consumer goods production, production of automation systems, and the corresponding lines of scientific research, have been almost totally shut

FIGURE 5

Gross expenditures on scientific research and development



Source: "Rossiiskaya nauka i tekhnologiya," Center for Research on Science and Statistics, M. 1995.

down. Aerospace and nuclear energy are in a grave condition, but those sectors were able to preserve a part of their scientific and production capacity, thanks to defense orders and producing for export.

The components of the other technological structures also lost their coherence and disintegrated. Those that survived, as a rule, were those with some capability to export; they could be integrated into foreign reproductive structures. Expressed in the language of biology, the elements of the collapsed "biocenosis" of the Russian economy became a nutrient medium for external technological and production structures, which raised their own competitiveness by means of assimilating the resources of the uncompetitive Russian firms they devoured.

A few firms consolidated niches on the domestic or foreign market. These were chiefly in the raw materials industries, which faced no serious barriers to foreign markets. Manufacturing industries survived, to the extent that they had some market for their products and could secure supplementary foreign financing. Most industries producing final products have been shut down. Those from the new technological structure were almost completely annihilated by foreign competition.

This disintegration of the Russian economy has long-term, negative consequences. The domination of alien economic reproductive contours, characteristic of colonial countries, means the loss not only of economic independence, but also of internal sources for sustainable economic growth. The

destruction of industries of the new technological structure, in particular, means the loss of potential for modern economic growth. The incorporation of obsolete industries into foreign reproductive contours makes the economy vulnerable to world market conjunctures. The destruction of domestic R&D capabilities and the severance of the technological chains defining self-contained innovation cycles, mean the loss of the main source of economic growth—scientific and technological progress. We are left to consume the fruits of such progress, produced abroad, paying with exports of raw materials.

"As a result of 'shock therapy,' the Russian economy has already acquired typical colonial features. Nonetheless, the colonial structure is not yet completely consolidated, so certain possibilities remain to overcome this tendency. With those are linked our hopes for ending the depression in the foreseeable future, and shifting to sustainable economic growth. In order to exploit these possibilities, it is necessary to evaluate the situation precisely and, using the evolutionary approach and existing world experience, develop an appropriate program of action."

Our point of departure

The conditions for a transition to economic growth are less than favorable. Because of the economic disintegration, external factors predominate, such as demand for Russian products abroad, the interests of transnational companies, and access to the international financial markets. Internal sources of growth have gradually been degraded, as is especially, alarmingly, apparent in Russian science; spending on science has fallen to the levels typical for underdeveloped countries.

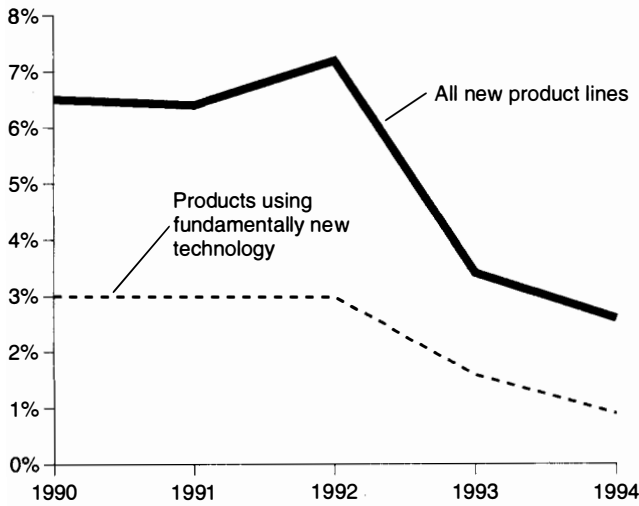
Ending an economic depression depends on the growth of a new technological structure and the diffusion of its key technologies. "Shock therapy" largely destroyed manufacturing associated with the new technological structure. The economic depression has become chronic, and is accompanied by declines in the efficiency of social production and the level of innovative activity (Figure 6), primitivization of the economic structure, and degradation of productive capacities. While the percentage of enterprises that engage in R&D was 60-70% in the U.S.S.R. in the late 1980s, it had fallen to 22.4% by 1992-94.

These features radically distinguish the Russian economy in its present state, from a classic depression, which opens up new possibilities for economic growth. In Schumpeter's words, in a classic depression there is a "constructive destruction" of the existing technological structure, which is modernized on the basis of the new technological structure-period. But today's Russian depression exhibits a pathology, characterized by chaotic collapse of the entire economic system.

With the unfavorable structural changes comes a grave macroeconomic situation. First of all, the price structure, cre-

FIGURE 6

New machine building, as a percentage of total output



Source: "Rossiya v tsifrakh: 1995. Kratkiy statisticheskiy sbornik," Short Statistical Anthology of the Russian Federation, Moscow, 1995, p. 215.

ated under pressure from the monopolies, makes almost any manufacturing or agricultural activity unprofitable or uncompetitive. By the end of 1995, prices on the fuels and construction materials most consumed in industry and agriculture were much higher than world market prices (e.g., gasoline, 1.8 times higher; steel, 1.5 times). The domestic devaluation of the ruble continued at the rate of 7% per month, while its exchange rate was kept virtually stable; thus, prices for domestic consumer goods drew even with and even surpassed the prices of imported goods.

Secondly, prohibitively high interest rates make it impossible to finance either current production, or investments for modernization.

Thirdly, the refusal to defend the domestic market even from unscrupulous foreign competition, has led to the loss of most markets for domestic products, which now comprise less than half of the goods in circulation (less than one-fifth, for consumer goods from science-intensive industries).

Fourthly, the absence of mechanisms to index income and expenditure streams for current economic activity, under conditions of high inflation, causes the constant devaluation of enterprises' circulating capital, a chronic non-payments crisis, and rising interest rates.

There are also serious problems at the microlevel. When voucher privatization ended, the lack of definition of property rights became even worse than it had been. It deteriorated further, with the introduction of new forms of quasi-free-of-charge transfers of huge units of property to the control of

private structures, which frequently are merely agents for foreign companies.

Mass privatization of state enterprises yielded no increase in the economic responsibility of the people in charge of them. Some two-thirds of all firms are controlled "from inside" by the labor collectives and executives. Around 10% of privatized enterprises remain under state control; only 20% are controlled by outside owners. The position of the latter is often undefined and vulnerable. Significant quantities of the shares of privatized firms have been bought up by dubious intermediary firms for purposes of subsequent resale. This chaotic situation breeds opportunistic behavior on the part of the executives, hindering long-term planning for the firm and investments.

The many scandals associated with privatization, financial pyramids, and so forth, have created stereotypes of entrepreneurial behavior, orienting people to the easy super-profits to be had by deceiving consumers or the state, breaking the law, bribing officials, while refraining from expenditures on the stimulation of production or labor motivation. These stereotypes help maintain the shadow economy and organized crime; they negatively affect market competition, efficiency, and socio-economic development.

At least two positive elements in our situation can be noted. One is that the general sense that we have hit bottom, that "there's nowhere more to fall," creates a certain psychological expectation of an upswing. Also, there is the relative exhaustion of possibilities for large-scale financial schemes based on the population's savings, the reduced profitability of currency speculation, and the elimination of many illegal tax and import duty breaks.

Several other elements of our situation may be noted. First, approximately one-third of our industrial enterprises have adapted to market conditions not badly, and could function independently if there were a favorable change in the economic conjuncture. Many of them have found export niches for their products, and could increase the volume of such exports, given a modicum of stimulation. Secondly, with the reduced profitability of speculative operations and the completion of the spontaneous redistribution of property, entrepreneurial energies may be redirected into the productive sphere. Thirdly, the population has basically mastered the rules of the game for the market economy, and would be able to engage in productive activity, if there were a growth of real incomes and employment. Fourthly, progressive economic legislation has been adopted in recent years; if it were strictly observed, economic stability could be increased. Fifthly, the economic crisis has liquidated a portion of our obsolete production capacities, freeing up enormous material and human resources.

These positive elements will not be exploited, if those in power continue to redistribute property and speculate with state funds, instead of solving economic problems. We need

Russian scientists warn of 'social catastrophe'

This "Appeal of Members of the Russian Academy of Sciences Dmitri Lvov, Nikita Moiseyev, Gennadi Osipov, and Boris Raushenbakh—For Russia and Its People," was issued on April 29.

The time has come when, for the sake of the country's future and the preservation of Russia as a single state, it is necessary to face the truth and to assess the socio-economic and socio-political situation as it really is.

The country is in danger; it is on the brink of social catastrophe. It is no longer able to feed itself, production is falling, the cost of resources is growing without interruption while their quantity decreases, and power is weakening—its instructions are not carried out. Russia's national security is threatened by unceasing territorial pretensions and the inevitable approach of NATO up to the borders of Russia. But the greatest danger for the country is the state of the people, their loss of confidence in the future and trust in the leadership, their sense of hopelessness.

Under these conditions, the confrontation of various social forces in Russian society, which is becoming more intense in anticipation of the elections for the Presidency

of Russia, aggravates the situation. The victory of any of the contending sides in these elections will inevitably lead to the imposition by force, on the other section of society, of demands it cannot accept. Confrontation in various forms, including armed confrontation, will become inevitable. None of the sides will want to yield its positions voluntarily. Discord and possible civil war will lead the country to collapse and ruin.

The only means of preserving the integrity and viability of the country is national conciliation, first of all between the two main candidates for the Presidency of Russia—B.N. Yeltsin and G.A. Zyuganov. This would mean drafting and signing a special document, according to which either of the contending sides, upon coming to power, would assume responsibility to preserve the democratic gains of the Russian people, not persecute its opponents or dissidents, reject the idea of political revenge, exclude violent and undemocratic methods of solving economic and political problems, and help to create a coalition government of national conciliation.

We sincerely hope, that upon the achievement of national conciliation, the burden of power and responsibility that will lie on the shoulders of the newly elected President of Russia, will be used not for purposes of vengeance, but in the name of Russia and for the good of its people. And we, scientists of Russia, are prepared to help in every way possible.

an economic policy, aimed at creating the conditions for economic growth.

The theoretical basis for a growth policy

Based on a theory of economic growth, developed by applying modern mathematical modelling methods to empirical findings from a comparative analysis of various national economies during the twentieth century, the following practical generalizations about the current state of the Russian economy may be made.

1. Scientific and technological progress is the main factor for modern economic growth. It determines 70 to 90% of GDP growth in developed countries. Other important factors are the investment of capital into "man" (education, health care, nurturing) and productive capacities, a developed legal system, stability of the macroeconomic and political environments, and a low degree of income differentiation within the population.

2. Economic growth is uneven. In each period, there are

branches and types of industry that comprise the dominant technological structure and are the carriers of economic growth. Their expansion determines economic growth rates.

3. Economic growth is global and is determined by the competitiveness and comparative advantages of each national economy. Countries without access to the technologies of the dominant technological structure will be, as a rule, in a dependent and economically disadvantaged position.

4. Periodic "great depressions" are connected with the accumulation of structural disproportions and the exhaustion of the dominant technological structure-period. They are overcome through "constructive destruction" and modernization of the existing structure of the economy, through diffusion of innovations from the new technological structure-period. These depressions are global, and those countries that are first to overcome them greatly increase their competitive advantages.

5. Each technological structure-period has a certain structure of economic institutions and forms of organization of production. Reproduction of the modern technological structure-period is characterized by the domination of global industrial-financial groups, widespread use of state regulation of world trade and stimulation of scientific and technological

progress, a developed system of state support for innovation activity, the domination of flexible forms of organization of the technological process, and significant redistribution of resources from the private sector into the public sector for purposes of developing universal education, health care, transportation and information infrastructure, and the financing of scientific research.

Application of the theory of modern economic growth to study of the Russian economy leads to recommendations, sharply diverging from the practice of the Washington Consensus, based on the ideological doctrine of radical liberalism, and so unsuccessfully applied in Russia and other countries with transitional economies. We need a new economic policy, and new forms of political support for it.

What is a 'transitional economy'?

The customary definition of a transitional economy, as an economy shifting from management by directive over to market self-organization, is inadequate. There are many types of market economy, with substantial functional differences.

The advocates of market reform usually talk about building a socially oriented market economy. This refers to the role of the state, in guaranteeing a certain level of public consumption. But a truly scientific policy requires more precise goals—implicitly the creation of a society of welfare [*blagosostoyaniye*, the “general welfare” (*obshcheye blagosostoyaniye*) of the U.S. Constitution], which ensures the free development of citizens’ talents, capabilities, and initiative, where social peace, justice, and order reign, the law is observed, the security of the state and the individual are defended, there is a high standard of living and welfare, with guaranteed respect for the democratic rights and social protection of each person, and creation of conditions for the development of society’s productive forces and scientific and technological progress.

Once such a goal is defined for economic reform, the subordinate role of the transition as such becomes apparent.

This paper will be limited to recommendations for reforming the economy, from the standpoint of creating favorable conditions for sustainable economic growth. The sustainability is to be stressed; the mere achievement of an increase in state orders or the indexation of circulating capital would not represent a satisfactory solution.

In the realm of technology, the task is to create and stimulate the growth of technology and production systems for the new technological structure, as well as the modernization of related industries. This requires competitive financial and production entities; the import of necessary technologies; stimulation of rapid diffusion of new technologies; defense of domestic markets; price relationships, advantageous to development of the new technological structure; and other economic parameters.

In the institutional realm, the task is to create an economic mechanism to reallocate resources away from obsolete indus-

tries, into the new technological structure. Privatization measures, tax policy, price and revenues policy, foreign trade regulation, financial and credit policy should all be subordinated to this task.

The same goals should shape policy for *the organization of the economy’s production structure*, promoting those organizations that will be able to develop under conditions of intense international competition.

Proposals for growth

Macroeconomic policy must create favorable conditions for solving the above-listed tasks, guaranteeing stability and a good climate for investment and innovation. At the microeconomic level, property rights must be precisely defined, to guarantee a high level of responsibility in the management of enterprises. On the basis of these obvious tasks, proposals for economic growth under current Russian economic conditions are given below. This policy divides into two components: the creation of favorable macro- and microeconomic conditions for the upswing of production, investment, and innovation, and special measures to stimulate progressive structural changes.

Concerning macroeconomic conditions, the economic depression has been explained in terms of:

- price disparities between raw materials and finished goods;
- the prolonged elevation of the ruble’s exchange rate (over the past three years, the fall in the rate of the ruble lagged fivefold behind its internal devaluation);
- the inaccessibility of credit resources for the development of production, due to their costliness;
- high inflation;
- the devaluation of enterprises’ capital;
- the reduction of efficiency, due to idled capacities;
- high taxation of the productive sector;
- the liquidity crisis and high cost of credit, caused by the state’s restrictive monetary policy;
- the state budget crisis, accompanied by a sharp rise in the state debt and the systematic non-fulfillment of government budget obligations;
- the devaluation of the population’s savings.

The rudder of macroeconomic policy measures to create favorable conditions for production.

1.1. Control over prices in the highly monopolized sectors, in order to suppress inflation.

1.2. Shift from a policy of planning the money supply, to one of targetting interest rates into a 3% to 7% real annual range.

1.3. Transition from a policy of artificially supporting the ruble, to allowing it to change in proportion to domestic inflation.

There should be tightened currency controls, requiring the conversion of all foreign currency earnings, and the elimination of foreign currency accounts over a two-year period.

There should be a strict ban on the importation and circulation of foreign currency, relaxation of restrictions on the export of rubles, expanded use of rubles in foreign trade operations, moves toward external convertibility of the ruble, and securing for the ruble the status of reserve currency in the CIS countries and eastern Europe.

1.4. Improvement of the structure of the money supply: introduction of electronic transfers, increased circulation of promissory notes, stimulation of long-term deposits by means of state guarantees, and reduction of the share of cash in the money supply.

1.5. Tax reform, providing for: reduction of the tax burden to a total level not exceeding 35%, on value added, profit, and wages; exemption from taxation of profits reinvested in production, new technologies, and scientific R&D; twofold reduction of the value added tax; shifting of the tax burden from low-income citizens to those with high, or super-high incomes. The reduced taxation of current incomes is to be compensated by expansion of the tax revenue base, as a result of scaling back the "shadow economy" and of the general recovery of production; increased taxation of socially and ecologically harmful types of activity, speculative operations, and incomes from property; liquidation of all exemptions from paying customs duties, the value added tax, or excise taxes on imports; higher taxes on imported luxury goods; and, the activation of non-tax sources of budget revenues. Natural rent for the exploitation of raw materials is of particular importance.

1.6. Defense of the interests of Russian goods producers, engaged in foreign trade: customs duties and non-tariff restrictions, to eliminate unscrupulous foreign competition; re-establishment of strict quality control on imports; elimination of all tax abatements for foreign capital; limitations on foreign investment in national security sectors (the defense industry, raw materials deposits, telecommunications, trade, finances, the electric power industry, etc.); creation of a customs union with the CIS countries, in which Russia would have the leading role.

1.7. Lower inflation, by means of standard monetary instruments, as well as price controls for the natural monopolies and the elimination of mafia structures that control the market.

Macroeconomic conditions alone are insufficient to launch economic growth. There will have to be special measures to raise productive capital investments. These include:

2.1. Strict limitation of the issuance of securities, for investment purposes only.

2.2. Formation of special financial institutions for development, ensuring a flow of credit into production.

2.3. Exemption from taxation of profits, reinvested in the financing of capital investments and scientific R&D.

2.4. Introduction of a monitoring system for the movement of enterprises' amortization funds, and their use for investment purposes.

These macroeconomic and investment-promoting mea-

asures should be supplemented by measures to stimulate demand, restore the population's savings and the circulating capital of the enterprises:

3.1. A program to restore citizens' savings accounts, which were devalued by inflation.

3.2. State purchases of large quantities of equipment with a long production cycle, for subsequent leasing to commercial organizations (aircraft, ships, agricultural implements, mining equipment, computer centers, etc.).

3.3. Indexation of the circulating capital of commercial organizations, including depreciation allowances; promotion of diverse forms of payment to improve the structure of the money supply; mutual off-setting of obligations, to reduce non-payment levels among enterprises.

At the microlevel, the main problem remains the motivation of effective management of property.

4.1. An inventory should be taken of the results of privatization, with cancellation of illegal acts that clearly harm the national economy, and the final affirmation of property-owners' rights at the remaining enterprises. The possible restoration of state control should be limited to the natural monopolies, defense industry, the fuel and energy sector, and narcotics production.

4.2. Strict defense of legally obtained property.

4.3. State supervision of the exchange of land, through a network of land banks.

4.4. Introduction of strict responsibility for the effective management of state property.

4.5. Tightened norms of responsibility of employees to shareholders, labor collectives, and the state, for the effective management of corporations and their property.

4.6. Creation of conditions for the efficient organization of industry and the integration of finance capital and industrial enterprises, including by the elimination of barriers to simultaneous participation in the ownership of financial and production structures, mergers of producing enterprises, scientific and engineering, and financial organizations, and the stimulation of the formation of industrial-financial groups.

4.7. Decriminalization of economic activity, by means of strengthening state protection of property, improving court arbitration of disputes, and introducing strict responsibility for fulfillment of contract obligations and repayment of credits.

Special measures

The effective bankruptcy of the majority of enterprises is a separate problem. An estimated one-half to two-thirds of industrial firms rate their situation as poor or very poor. There will have to be special state measures to clear up the finances of loss-making enterprises and to cultivate competitive production structures. For efficiency's sake, this must be closely coordinated with scientific and technological, industrial, and structural policy.

The state's scientific and technological, industrial, and

structural policy should comprise special measures to restructure the economy, on the basis of disseminating the technologies of the new technological structure. This means abandoning the notion of the state as a sort of superstructure over an economy of autonomous subjects, engaging in economic activity and consumption. In a modern market economy, the state carries out the internally important functions of stimulating *development* and the growth of [people's] *welfare*. For this purpose, the state must not only provide for the normal functioning of market competition and defend the legal rights of citizens and enterprises, but also assist enterprises in adapting to the changes and fluctuations of the market conjuncture, and create conditions for the development of production, financing a part of the expenditures for major-impact common undertakings, above all scientific research, education, health care, information and transportation infrastructure, and the promotion of innovation.

One necessary attribute of state development policy is a system of indicative planning and long-term state programs for the modernization of the economy, scientific and technological progress, and raising the popular welfare.

Special measures for economic restructuring should include the following.

First, to bring about a positive impact of the economic crisis on structural changes in the economy. The reduction of economic activity should not lead to shutting down progressive manufactures in the area of the new technological structure, but allow the culling of obsolete industrial facilities and clear the ground for economic growth on the basis of modern technology.

Second, the avalanche-style destruction of the country's scientific and technological complex must be halted. Conditions must be created for the preservation of the trained personnel, knowledge, and technologies, and their use to expand the new technological structure and work in anticipation of the subsequent one.

Third, the state's structural policy should correspond to the comparative advantages of the Russian economy, as well as to the objective directions of global economic and technological development.

Fourth, in carrying out state structural policy priorities, conditions should be created for the subsequent growth of private investment, and an economic upswing on the basis of bringing new, promising technologies on line.

Fifth, it is important to create competitive economic organizations, able to function on the domestic and world markets, and to concentrate resources on the most promising lines for renovation of manufacturing.

The measures adopted for these purposes are not limited to direct state intervention (programs, state orders, budget allocations); on the contrary, they should support a broad range of private initiative.

The state should both protect promising industries from destruction and create conditions for their growth during an

unfavorable macroeconomic conjuncture, as well as help to free up capital and labor from obsolete industries, and reconfigure the relevant production capacities. This dual task requires the following economic policy measures.

Measures to preserve the scientific and technological potential of industry:

- defense of state spending on scientific and technological progress, against devaluation and cuts; legislation to set the scientific R&D portion of the budget, at no lower than 3% of GDP; increased state subsidies for scientific research, and the exemption of scientific R&D spending from taxation;
- special measures to stimulate innovation, by means of state support for high-risk projects;
- transition from financing of scientific organizations, to the financing of scientific R&D on a competitive basis, in accord with the priorities for establishing the new technological structure;
- preservation of the scientific information infrastructure, maintenance of a network of scientific and technological libraries, subsidies to scientific research organizations for the use of information networks and data bases, and the acquisition of foreign literature;
- support for experimental industries and testing;
- active recruitment of the scientific and technological potential of CIS countries into joint work on priorities for scientific and technological progress;
- subsidies for the defense of intellectual property rights in Russia and abroad.

Measures to preserve and develop the technological potential of industry:

- federal programs for the development and diffusion of key technologies of the new technological structure;
- stimulation of technology transfer from military to civilian industry;
- promotion of technologies, which will give Russian firms competitive advantages on the world market;
- development programs for areas with a high concentration of scientific and technological potential (science cities);
- state assistance to infrastructure that promotes the commercialization of the products of scientific R&D;
- use of state purchases of advanced equipment, to be leased for the acceleration of retooling of fixed capital;
- subsidies for the import of new foreign technologies;
- stimulation of the export of manufactured goods.

At the same time, state-subsidized enterprises and branches of industry should be reconfigured and modernized, if their activity is deemed economically ineffective.

The effectiveness of such restructuring depends on the correct choice of priorities. From a scientific and technological standpoint, the priorities should be the most promising directions of the new technological structure and preparation for the next one. State support for these areas should be marked by 1) its effect on improvement of the economic and business environment; 2) a multiplicative effect, initiating

business activity growth in a broad array of sectors, connected with the priority areas of manufacturing. The state should promote the growth of competitive industries, in such a way that at a certain point, they make their own way on the world market, becoming “locomotives of growth” for the whole economy. From a social standpoint, these priorities in re-structuring should be accompanied by the growth of employment, rise of real wages and skills levels for the working population, and a general increase in the people’s welfare.

Among the priority directions would be:

- renewal of the civil aviation fleet, where wear and tear has reached a critical point, and where the capability exists to produce new-generation aircraft;
- renewal of equipment at electric power stations, where wear and tear is approaching critical limits;
- modernization of rail transport management systems, making possible a significant increase in traffic capacity and on-time delivery of freight;
- production of modern flexible equipment for the automation of agricultural production;
- development of modern transport junctions: seaports, airports, railroad stations, and road bypasses, making it possible to improve the speed and reliability of total freight shipments;
- development of modern housing construction;
- development of information infrastructure, employing satellite and fiber-optics communications;
- modernization in the non-productive sphere, on the basis of domestically produced equipment (medical diagnostic equipment, computer technology for education, etc.);
- cleaning up the environment, by means of modern, ecologically clean technologies.

In view of the extreme militarization of Russia’s science-intensive industry, state support for defense industry conversion is a necessity. All the instruments of state policy should be employed: state purchases, allocations for scientific R&D, preferential credits, credit guarantees including for export, stimulation of the creation of competitive industrial-financial groups, subsidies for the import of technology.

Competitive advantages

State economic policy should be oriented to *realizing the competitive advantages of Russian industry*. World experience shows that successful structural economic changes rely on support for those areas of the national economy, capable of promoting economic growth on the scale of the world market. Among Russia’s competitive advantages are:

- cheap labor, with a high skills level;
- low relative capital requirements in the scientific R&D sector, with relatively developed infrastructure for experimentation, and R&D already done in several areas;
- a long Russian presence on the machinery and equipment markets of a number of countries;

- significant idle production capacities, which can gear up production for export at relatively low cost;
- unique state-of-the-art technologies in several sectors of industry, which could provide for the expansion of competitive exports.

Among the blocks to realization of these competitive advantages are:

- the virtual absence of financial, organizational, or information infrastructure to support competitive Russian exports or the rationalization of the structure of imports;
- changes in the world geopolitical configuration, leading to loss of traditional markets for Russian products;
- the West’s protectionism;
- concentration of the most competitive industries in the military-industrial complex;
- low efficiency of production and extremely high proportional material costs;
- low efficiency of industrial organization;
- domestic demand that rapidly degenerated with the evaporation of state orders for science-intensive products.

Under these conditions, a strategy for realizing Russia’s competitive advantages includes several aspects.

1. *Stabilization of traditional machinery exports*, including by means of state support for project assistance abroad. To guarantee the capital raised for such purposes, the long-term debt of developing countries to Russia could be converted into the real assets of enterprises built with Russian assistance.

2. *The realization of competitive advantages*, connected with the cheapness of labor, productive capital, technological know-how, and material resources. This strategy could be implemented in Russia as follows:

- preservation and development of energy- and metal-intensive machine-building, including components and semi-manufactures made of non-ferrous metals and steel;
- mastery of types of production, already accomplished in developed countries—chiefly consumer machinery (light cars, household appliances), various equipment for light industry and the food industry, and equipment for trade;
- creation of assembly plants for components, imported into Russia;
- creation of firms to commercially exploit the available scientific and technological capacities of Russian high-technology enterprises and design organizations;
- placement of orders in Russia for technological and design work, applied scientific research, experiments, programming, and other types of science-intensive services, in areas where Russia has skilled personnel and world-class achievements.

3. *Realization of the dynamic competitive advantages, embodied in high-technologies*.

There are several sectors of Russian industry and services, which possess unique high technologies and could become

export leaders: aerospace, the nuclear industry, shipbuilding, space services, and computer programming. Developing the export potential of these and other science-intensive sectors will not only help the whole Russian economy, but is necessary to save these sectors.

The integration of these sectors into the world economy will allow several priority tasks of industrial policy to be solved, as the expansion of science-intensive industries and bringing them up to standards for export, stimulates technological changes in related industries. They will become the engines for progressive structural shifts in industry. But for these sectors to be brought into the world division of labor, two difficult problems must be solved.

First, our military-industrial complex is heavily materials-consuming and power-consuming; many Russian technologies, recalculated at world market prices, would be priced out of the market. Some links in the technological production chain may need to be replaced or upgraded, which, in turn, requires interfacing with the global market for certain intermediary products, as well as finished goods.

Second, Russia's competitive advantages are concentrated in sectors and markets (weapons, fuels, aerospace) where state-supported Western competitors act with particular zeal, and with a direct relationship to the geopolitical interests of the leading Western nations. It will require active political support and trade policy measures, to enter these markets.

The top priority should be to exploit the competitive advantages, embodied in the unique technologies we have. State support should be focussed on the relevant sectors, not only to attract investments and intellectual resources, but to make them the pivot of an organizational structure of industry, industrial-financial groups, export syndicates, and science and production consortiums.

Given our industrial collapse and underdeveloped market infrastructure, it is imperative that the state direct the process of enhancing competitive advantages. This implies a range of *industrial policy measures*.

1. The state should invest in science and new technologies, training and education, the infrastructure and information networks, and should provide tax credits and other stimuli for investment. The state should defend the intellectual property of Russian goods producers, including by subsidizing the patenting of their inventions abroad.

2. The state should act to improve the structure of total demand, with the institution of new standards, competitive bidding for high-technology contracts, monitoring of innovations abroad, and granting of tax abatements to enterprises investing in new technologies.

3. The state's investment in infrastructure, attraction of foreign capital, promotion of the most efficient enterprises, etc. are of great importance.

The indispensable state support should coexist with market mechanisms, without undercutting or suppressing them—

contrary to the vulgar counterposition of plan and market, traditional for both the radical liberals and the communists. State regulation is a delimited component of a modern market economy. It is naturally more accentuated in a transitional economy, due to the state's leading role in organizing the processes of transition.

In our own experience, spontaneous deregulation of the economy did not yield free competition as the motor of a market economy. Rather there was a merger of business layers with state power structures, and a carving up of spheres of influence among the most powerful groups in the regions, which led to increased weight for the shadow economy. Power became concentrated in the hands of the best organized groups, which could combine capital with access to state power and influence in the criminal world. This led to the worst sort of monopolies, suppressing honest competition and paralyzing state law enforcement agencies. Our new monopoly structures resemble monopolies in feudal society, based on state privileges. They rule the market, cannot be combatted by legal means, and tear up the nation's economic space into closed regions and areas of activity.

It would be naive, to think that the further reduction of state regulation could solve this problem. It will require persistent efforts in the area of legislation (on competition, price formation, and contract law, with strict penalties for violations), the court system for hearing economic disputes, and the development of business ethics through the creation of various entrepreneurial clubs and associations for this purpose.

The state system of economic management also needs to be overhauled. Its need to concentrate on socio-economic development, setting priorities, and carrying out the above-mentioned tasks, has little in common with today's practices of chaotic and subjective allocation of preferential credits and subsidies. The number of state economic agencies should be limited to a few ministries (finance, industry and foreign trade, power, transport, education, health care, labor and social policy, communications) and committees (socio-economic forecasting, anti-monopoly regulation, national resources, etc.), for functions that cannot be handled on a market basis.

The main areas requiring state support are science and technology, education, social protection, regulation of labor relations, market regulation, access to non-renewable resources, transportation and information infrastructure. Many of these functions cannot be left to private interests, without harm to society; they require state participation.

In particular, the state should provide much of the financing for scientific R&D, in the absence of motivation for firms to do so; the development of high-technology industries, with export potential; and the retraining of personnel formerly employed in now obsolete industries.

The size of state property that remains, mandates special functions to manage it. The relevant ministries should be

made responsible to utilize this property as profitably as possible.

The state also has a duty to protect the rights of businessmen, property-owners, and consumers, and to curb unscrupulous business activity. This entails functions of the courts, licensing and arbitration agencies, and others.

It is important to coordinate the activity of government agencies, subordinating their work to the achievement of overall goals. This requires use of the special purpose program principle, in planning their work. The components of this approach include: long-range economic forecasting, indicative planning of probable technological trajectories, identification of key economic development problems, and the choice of priorities for economic and scientific and technological development.

Colonial economy, or growth?

Estimates by the Institute for National Economic Forecasting show that if current economic policy is continued, the depression will be prolonged, while the symptoms of a "colonial" economy become chronic. There will be no internal sources for development. If, however, there were a shift to an active growth policy, it would be possible to return to greater than 4% per annum growth.

In combination with the scenario for stimulating the growth of the new technological structure and active state support for scientific and technological progress, these calculations make it possible to anticipate sustainable economic growth at 7% per annum in 1996-2005. The pre-crisis standard of living could be restored by 2005, but on a qualitatively new technological and economic basis. It is important for economic growth to be based on new technologies.

The problem of practical action

"The main problem of economic policy today, is the striking contradiction between the theoretical recommendations of our scientists, and the real actions of the authorities. Despite the amazing similarity of the constructive criticism and proposals of many Russian scientists, economic leaders, and businessmen, the government continues passively to implement recommendations and conditionalities from the IMF and foreign creditors, following the primitive policy of passive adaptation to the continuing collapse and ever-deeper depression. Unfortunately, judging by the main programmatic documents—the President's Message to the Federal Assembly and the Statement of the Government and the Central Bank to the International Monetary Fund—economic policy will not be significantly changed this year.

"In place of analysis of the reasons for the failure of the restrictive monetary stabilization programs carried out so far, the latest mystical interpretations of what has happened are now coming out. In particular, there is propaganda for the

myth of a three-phase entry into the market, which is supposed to be taken on faith; according to this myth, after the stages of deregulation and stabilization, which are supposedly inevitably accompanied by a deterioration of the economic situation, just as inevitably there comes 'the third and final stage of establishment of a market economy—stimulation of production and investments, rising efficiency, large-scale restructuring of the Russian economy' [quoted from the President's 1996 Message].

"The concrete economic policy lines, planned for this year, differ little from previous years, and no doubt likewise will depress economic activity, further degrading the real economy and continuing the collapse of production.

"This applies, in particular, to the measures laid out in all the official documents (including the President's Message) for lifting export tariffs on oil and natural gas, maintaining a stable ruble exchange rate regardless of the rate of inflation, and lifting restrictions on the export of national capital, including the placement of Russian government securities on overseas markets. The first of these measures will deprive the federal budget of 22 trillion rubles, already calculated as natural rent revenues (which will mean a corresponding deduction from spending on social needs, science, defense, etc.); this will undoubtedly send fuel prices higher, driving a new round of inflation. The inflationary effect of this measure will be aggravated by the planned increase in excise taxes on fuels, which will not, however, compensate for the budget losses from the removal of export tariffs, since the collection rate is very poor for excise taxes. The second measure will cause a further fall in the competitiveness of Russian goods producers, which already declined twofold last year, and will further facilitate the displacement of Russian products by imports, which already comprise more than half the consumer goods market. The third measure is nothing less than capital flight, which hitherto everybody, including the President, has recognized as an obvious evil and one of the key problems. The fourth measure means a new stage of building up the foreign debt, which as it is has become the world's largest. Taken together, these measures will stimulate a further growth in price disparities, with an increase of fuel and raw materials prices and lower prices on imported goods. They essentially contradict the declarations, contained in the President's Message, of intent to stimulate high-technology industries, save the scientific and technological base of the military-industrial complex, and defend the domestic market.

"Judging by the actions of the government in recent months, the priority direction remains the rapid buildup of state debt by means of the expanded emission of state securities, despite the clearly depressive consequences of this policy. In particular, the recent sharp increase in the return on newly floated state securities and loans, against the backdrop of lower inflation, will lead to a rise in interbank interest rates, which means that credit becomes even more expensive, productive investments inevitably decline, their collapse ag-

gravated by the shortage of credit resources—diverted into servicing the budget deficit—such a policy artificially creates. The super-high return on short-term state bonds is profitable for the banks that purchase them, but ruinous for the state budget, which will have to start paying already this year for the state bonds issued, plus interest. This will inevitably cause a sharp reduction in budget spending and a breakdown of budgeted payments during the second half of the year, which will lead to the latest destabilization, reduction of state-sector workers' incomes, deterioration of the financial situation of employees at enterprises that fill state orders, and a deeper collapse of production.

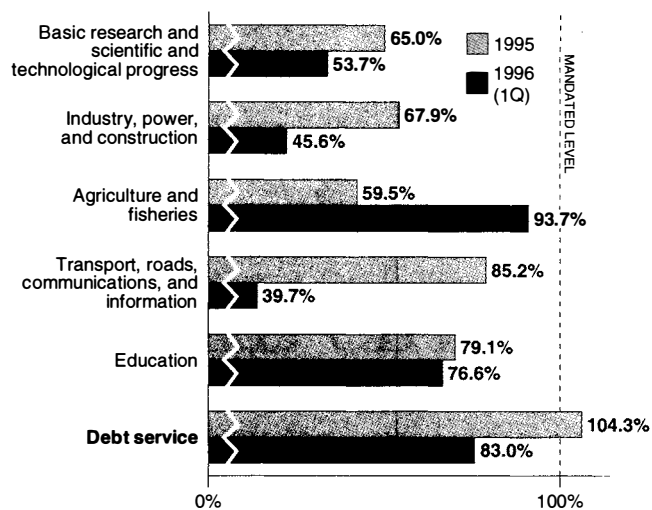
“Other measures, recommended by the IMF and adopted by the government for implementation, will also deepen and prolong the depression. These are, in particular: the approach of domestic oil prices to world prices; the increase of certain tax rates; the increase of utilities fees; the abandonment of state property in loss-making enterprises; the virtual elimination of the industrial-sector investment funds; drawing the population's savings into financing the budget deficit; the further deregulation of imports and abandonment of generally accepted, worldwide, instruments for the protection of the domestic market; expansion of the market for state bonds and the buildup of an extremely expensive state debt; rejection of assistance to enterprises and banks for the solution of mutual non-payment problems; mandatory lifting of any price or trade regulation at the local level; and other measures, which the government pledged to adopt, in the above-mentioned Statement.

“As in the past, economic growth, raising the standard of living, increasing labor productivity and the efficiency of production, reducing unemployment, expanding the market for Russian goods on the domestic and international markets—do not figure among the goals of government policy, indicated in the Statement to the IMF. Instead of these goals, which are obvious even from a common-sense standpoint, there are again only implementational goals, important to ensure monitoring of the government's policy and favorable conditions for foreign capital. This approach is affirmed by actual federal budget spending practices, the divergence of which from what was planned in the relevant legislation reflects the government's real priorities. **Figure 7** shows that the government's top priority is debt service, while expenditures that are most appropriate from the standpoint of ensuring economic growth, are not actually prioritized, but effectively are financed ‘with the leftovers.’

“The natural consequence of continuing the Washington Consensus policy is a continued collapse. Official data show that in the first quarter of 1996, the collapse continued to deepen, and the nation's economic structure to degenerate. In February 1996, GDP was 3% below the February 1995 level, while industrial production dropped 4%; consumer goods production, 6%; and production in the machine-building and chemicals industries, 17%. In consumer machine-building

FIGURE 7

Actual allocation of federal budget funds, as a percentage of the level mandated by law



Source: Russian Federation Counting Chamber data (N 01-32/15 and N 01-174/15).

and high-technology industries, the collapse was above 30% for many products. After the many-fold collapse of production in previous years, this means the virtual disappearance of the sectors of industry that are most important for modern economic growth. The volume of capital investments was down 10%, while the number of officially registered unemployed rose by 40%.

“But the recovery and upswing, mentioned in the Message, are actually possible. Just as they were in 1993, in 1994, and in 1995. But just as they remained unrealized earlier, they will not happen this year if the Washington Consensus policy is continued. Unless, of course, the Washington Consensus is replaced as the foundation of our state's economic policy by a Russian one—developed on the basis of broad public accord on the main goals, priorities, and economic policy instruments of the Russian government. Unlike the Washington Consensus, which is oriented to ensure transparency and favorable conditions for the work of *international* capital in any country, the *Russian consensus* in formation is oriented toward ensuring favorable conditions for the development of *Russian* enterprises, raising the welfare of *Russian* citizens, and an upswing in the *Russian* economy. This consensus is being formed on the basis of the careful study of Russian and international experience in overcoming economic depressions, the laws of modern economic growth, the peculiarities of our economy, and its competitive advantages. Its theoretical basis has been defined in works by scientists from the Russian Academy of Sciences in recent years, which provide a precise enough concept of a theory of economic growth, under conditions of transition from a directive to a market economy.”

Derivatives strike again, this time in the corn belt

by Anthony K. Wikrent and Marcia Merry Baker

Remember financial derivatives, those complex financial contracts, the value of which are based on other financial contracts, and which forced Orange County into bankruptcy at the end of 1994, caused Procter and Gamble to sue Bankers Trust after losing over \$100 million, and wiped out Barings PLC in February 1995? Now some similar contracts, based on agricultural commodities, are in the process of forcing farmers and grain elevators out of business in the U.S. corn belt, stretching from Ohio to Kansas and north to Minnesota.

About 1 of every 20 farmers in this region—who got involved in derivatives contracts, called “hedge to arrive” (HTA) or “hybrid cash” contracts, to lock in what they believed, in autumn 1995, was a good price for their grain for the next few years—are now threatened with being completely wiped out by the recent, unprecedented run-up in corn prices. While the number of farmers affected appears to be small, and the use of HTA contracts is limited to handfuls of counties across the farm states, there is great concern that farmers’ attempts to save themselves may bring down their local grain elevators, upon which entire local farm communities depend. Direct losses are projected to be in the range of \$600-800 million.

What smart-talking “experts” sought out the gullible farmers, and induced them to go into exotic deals? The agents of the U.S. Department of Agriculture extension service, in conjunction with major brokerage houses.

This process was kicked off in the late 1980s by the blanket approval for off-exchange deals sanctioned by the *laissez-faire* policies of the Commodities Futures Trading Commission (CFTC), headed then by Wendy Gramm, wife of Sen. Phil Gramm (R-Tex.). Today, Wendy Gramm is on the board of Iowa Beef Processors (IBP), the world’s largest butcher company, which belongs, along with other food commodities

“super” companies—Cargill, ADM, ConAgra, Tate & Lyle, Continental, Louis Dreyfus—to cartels dominating 70-80% of the processing and distribution of staples of the U.S. and world food supply. These cartels, interconnected at the center with London financial and political interests, are making a killing by hoarding, speculating, and controlling scarce food supplies. They are directly involved in perpetrating “price hoaxes” of all kinds. For example, right now, IBP, Cargill, et al. are systematically underpaying farmers for their beef.

Hedge-to-arrive contracts

The hedge-to-arrive contracts were invented five or six years ago by large grain producers, to allow them to fix a floor under the price of grain they would sell to an elevator. HTA contracts “work” when grain prices are stagnant or falling. But when prices are rising rapidly, it turns out, *multi-year* HTA contracts are big money-losers.

In October 1995, some farmers decided to lock in what they believed, at that time, to be a good price, of about \$3 a bushel for corn, for the next two to three years. Almost all elevators “hedge” their grain contracts with the farmers. That is, as soon as an elevator contracts to buy grain from a farmer, it will immediately sell a commitment to deliver that grain to someone else. This is usually done by selling a futures contract on an exchange, such as the Chicago Board of Trade. But, the longest-term futures contract that is available is about 14 months. That is, in October 1995, the longest-range futures contract available was for December 1996. So, for a multi-year HTA contract, the farmers’ commitment to the elevator would have to be hedged through a series of futures contracts. As the first futures contract neared its settlement date, an offsetting futures contract would have to be bought in order to terminate the position, and a new futures contract pur-

chased to replace it.

What happened this spring, is that the relationship between cash prices and futures prices became inverted. Normally, the cash price would come to nearly equal the futures price, by the time the futures contract terminated. This year, however, grain prices soared, with cash prices moving higher than even the futures prices, a very unusual situation that reflects the very low stocks of corn. When time came to roll over the May futures contracts used to hedge many of these multi-year HTA contracts, the elevators found that it would cost about \$1.50 a bushel more to buy offsetting futures contracts, than the original futures contracts sold for. Thus, a price gain in the cash market was transformed into huge losses for the elevators.

The elevators, of course, because they are simply trying to roll over their hedging of the risk of the multi-year contracts the farmers insisted on, are passing the loss on to the farmer. The farmer finds that where he had expected to sell his 1996 crop for \$3 a bushel, the elevator is now deducting from his account the losses incurred in rolling over the May futures contracts. That means that the farmer's 1996 or even 1997 crop, is being valued at around \$1.50 or less a bushel, far less than even the projected \$2.40 cost of production.

Not surprisingly, hundreds of farmers in this situation have hired lawyers to try to find some way to wriggle out of these HTA contracts. As the St. Paul *Pioneer Press* reported on May 7, "Throughout the Midwest, bankers, lawyers, grain buyers, state officials and federal regulators are scrambling to assess potential losses. . . . Rural banks and main street merchants will run into trouble as farm income is diverted to settle these contracts."

Heavy losses

What action has been taken? So far, lots of talk. On May 15, the Senate Agriculture Committee held hearings on the situation, and Chairman Sen. Richard Lugar (R-Ind.) has scheduled more for June 5. Also on May 15, the CFTC issued a "guidance" on hedge-to-arrive deals.

C. Richard Starke, Jr., of Fort Dodge, Iowa, warned the Agriculture Committee May 15, that "these obligations have grown to the point where some industry people think there may be 400 million bushels of corn that have been sold into the marketplace which, in reality, do not exist. In a year with extremely tight supplies, such as this year, practices such as this, which may have gone unnoticed in normal years, have a tendency to become a destabilizing force in the marketplace, and wreak financial havoc on elevators, farmers, and potentially some banks."

According to the USDA, the U.S. corn supply, as of March 1, was 3.8 billion bushels, down 32% from a year earlier.

Mark Hanson, a St. Paul, Minnesota attorney representing several grain elevator companies in Minnesota and Iowa, told the St. Paul *Pioneer Press* on May 7, "We know that some farmers have already sold some of the 1995 crop, some of

their 1996 crop, and some of their 1997 crop."

The National Grain and Feed Association, based on a survey of its members, found that about 6% of 1995 corn production had been sold using multi-year HTA contracts, mostly in Illinois, Iowa, and Minnesota. The association estimated that losses may be as high as \$500-700 million. Some problem contracts are also being reported in Ohio and Indiana.

Roger G. Ginder, a professor of economics at Iowa State University, told the Senate Agriculture Committee, "From the start, most elevator managers have been at best uneasy with the typical hedge-to-arrive contracts. With very few exceptions, the contracts were offered in response to competitive pressures rather than being actively promoted by the elevators themselves." Ginder explained that elevators reluctantly agreed to such contracts, because, in "the razor-sharp competitive climate," some large producers threatened to take their business elsewhere, if the elevator did not agree.

Tom Sims, president of the Association of American Warehouse Control Officials, noted in an interview on May 21, that no farmer or elevator manager ever expected grain prices to skyrocket the way they have the past year. "We have never seen, any time before, that crops have doubled in price in just one season," he said.

In fact, during the summer of 1995, *EIR* warned of just such a steep upward trend in commodities prices, because of the flow of "smart" money into havens of control positions in the supply chain of food, metals, fuels, and other strategic necessities, as the world financial system further disintegrated.

Watch out for higher 'volatility'

There is a great irony in this situation. We are seeing a derivatives blowout in the U.S. farm belt, only weeks following the enactment of the Conservative Revolution's "Free Market Transition" farm law.

And unless national-interest remedial measures are taken (anti-trust against the cartels, penalizing of speculation, and resuming parity-based commodities pricing for farmers and other producers), then more blowouts are on the way, and the food supply is threatened by the public and lawmakers refusing to act in time.

Prognosticators are already forecasting more blowouts, although they use restrained jargon, such as, "volatility in the markets."

Professor Ginder explained in an interview on May 23, "In the absence of known [grain] reserves, we're going to see much more volatility in the markets. . . . Now, we're moving into a new environment of very cyclical production. We have acted, with our programs in the U.S., as a food reservoir for the world. Without that, it will take a while to fully learn and understand the implications." Ginder believes that new "marketing tools" will be developed for this new environment, and accepts that "marginal producers" will be forced out of business.

Business Briefs

Southeast Asia

Several infrastructure projects launched

Several major infrastructure projects are about to get under way in Southeast Asia. A group of Thai and Japanese companies are to build a \$375 million dam in the Shan state of Burma (Myanmar), previously under Khun Sa's control, as the first of eight hydro-power projects identified by the Thais and the Burmese.

Gas from the Indonesian Natuna field in the South China Sea will be shipped to Thailand under the sea, either in a 1,000-kilometer pipeline directly to the Bangkok area, or in a 400-km pipeline to the Thai-Malaysia border area. Thai Prime Minister Banham Sinlapa-acha visited Indonesia in April, agreeing to this and other deals, including to swap rice for Indonesian-produced airplanes.

Thailand and Vietnam have agreed to develop the Route 9 road from northeast Thailand, through Laos at Savannakhet, to Danang, Vietnam. Japan and the Asian Development Bank will aid in the financing.

Germany

Parliament okays maglev for Hamburg-Berlin route

The German Parliament approved construction of a magnetically levitated (maglev) rail line between Hamburg and Berlin by 2005, on May 9. The government is to shoulder DM 5.6 billion (\$3.5 billion) for the preparatory engineering work, and construction and maintenance of the track. Private investors, such as construction firms and banks, are expected to pre-finance the remaining DM 2.8 billion, and be reimbursed through revenues from the maglev's operation. The government wants to buy the maglev back over 20-25 years.

Although it must be approved by state parliaments, and is facing a legal challenge from environmentalists, construction is to begin in 1997, or spring 1998 at the latest.

The first maglev run between the cities is expected to take place in 2003.

The Swiss daily *Neue Zürcher Zeitung*, on May 11, was highly optimistic about the technology, in an article entitled "A Maglev Net as a European Vision." It read: "If the system, which has been tested for many years in the Emsland, can deliver what it promises, this will not only result in better export opportunities for industry. It would also improve Europe's long-distance railway transport, in comparison to the system of wheels and tracks. There already exists a railway network between Madrid and Moscow, from Scandinavia to Sicily. However, even with huge efforts at modernization, this railway network would never make possible comfortable travel times, apart from a few particular routes. By contrast, with the magnetic train we could easily traverse transcontinental distances in a few hours. The vision that the present high-speed rail system, based on wheels and tracks, will later be transformed, step by step, into a maglev system, does not have to be utopian, considering that the magnetic train can handle much greater grades and curvatures."

Eurasia

Iran inaugurates new 'Silk Road' rail link

Iranian President Ali Akbar Hashemi Rafsanjani inaugurated a new rail link between Iran and Central Asia on May 13, which, he said, revived the old Silk Road. He spoke at the opening of the railway in Mashhad in northeastern Iran, attended by heads of state and dignitaries from more than 50 countries.

"Today we open a railway in cooperation with our friend Turkmenistan which revitalizes the historic Silk Road . . . which is famous as a symbol of East-West relations. The Silk Road railway . . . shortens the long distance between Chinese ports to the Persian Gulf, is the bridge for the region and the world, and is a clear example of Iran's priority on regional cooperation," Rafsanjani said.

The 165-kilometer railway between Mashhad and the Turkmenistan city of Sa-

rakhs will make it possible, for the first time, to link China to the Mediterranean through the Chinese-Central Asian rail grid, and Iran to Turkey via Teheran. The rail line will also link the Central Asian countries to the Iranian port Bandar Abbas, on the Persian Gulf.

Chinese Prime Minister Li Peng said, "This is the Silk Road into the 21st century."

Turkey's President Suleyman Demirel said, "An historic legend comes to life. The Silk Road was not only about a route, but was about the coming together of various nations. It is not only a railway being inaugurated today, but continents and peoples of various continents are being connected."

"The Iran-Turkmenistan rail line will place the Central Asian states in the global economy," said Pakistan's President Farooq Ahmed Leghari.

The inauguration of the rail line opens a new phase of economic cooperation in Central Asia. A summit of the heads of state of the Economic Cooperation Organization, which includes Iran, Turkey, Pakistan, Afghanistan, Azerbaijan, and five Central Asian nations, was held in Ashkhabad, the capital of Turkmenistan, on May 14-15. The establishment of a "regional development bank" to finance major infrastructure projects parallel to the Silk Road rail project was scheduled for discussion.

Indonesia

Plan for 'national car' upsets free trade mafia

The free trade mafia is very upset about Indonesia's plan for a "national car," which President Suharto announced in February. The plan involves high levels of protection for domestic industry, including use of tax breaks and tariff barriers. Leon Brittan, the British vice president of the European Union Commission, "made clear to President Suharto that European automotive manufacturers are not satisfied with Indonesia's national car policy," the Jakarta journal *Kompas* reported on April 24.

Hit-man Brittan admits that the plan is within the World Trade Organization rules, but nonetheless claims that "the policy is

Briefly

THE IRANIAN Oil Industries and Engineering Co. got a 10% share in a contract to exploit the Azerbaijani oil field Shakh Deniz, which will be carried out by an international consortium led by British Petroleum. There are seven international investors. Russia got a 25% stake, and the Russian firm Lukoil a 12.5% stake.

SOUTH AFRICA and China granted each other most favored nation trade status on May 2, South Africa Trade and Industry Minister Alec Erwin announced. Erwin said both countries were keen to pursue expanded trade and investment opportunities. Bilateral trade has expanded from \$14 million in 1991 to \$1.3 billion in 1995.

CAMBODIA will impose fines on anyone found to be using dollars (or Thai baht) in the country, because the sovereignty of the economy is threatened, the newspaper *Reaksmei Kampuchea* reported on April 24. This is "tantamount to preserving the nation's territorial integrity," it said.

POPE JOHN PAUL II warned eastern Europeans not to fall into the trap of "unbridled capitalism" and lose their new freedom, upon his arrival in Ljubljana, Slovenia on May 17. True freedom must be found in a "third way" of economic policy, one which pays tribute to the genuine concerns of humanity, he said.

MORGAN STANLEY chief economist Stephen Roach attacked downsizing, in an article entitled "America's Recipe for Industrial Extinction," abridged in the May 14 London *Financial Times*. He is the latest among supporters of free-trade policies who are publicly distancing themselves from their wrong ideas.

TURKEY'S President Suleyman Demirel, accompanied by a large business delegation, visited Uzbekistan in May to strengthen economic and cultural ties. Bilateral trade rose by 75% in 1995 to \$280 million, and 200 joint ventures have been set up in Uzbekistan, officials said.

contrary to Indonesia's commitment to the WTO." Brittan said he feared that this "discrimination" against European manufacturers "can influence other sectors."

Also typical of the reaction is a *Far Eastern Economic Review* op-ed by Alexander Irwan, of the Center for Indonesia-Asia Business Information in Jakarta. Irwan complains that the company given the concession, run by Suharto's son Tommy Suharto, together with the South Korean firm Kia, will be able to sell the new car (called the Timor) at half the price of comparable imports because of high tariffs on everyone else. He insists that the car will be of a low standard, and will fail to live up to the promise to use a majority of local materials within three years, yet consumers will be forced to purchase it.

In Indonesia, however, Fadel Muhammad, president of the Bukaka Group, one of the industrial firms involved in the national car project, issued a call for similar government policies to aid infrastructure development. *Bisnis Indonesia* of March 11 quoted him saying that "a Presidential Instruction on infrastructure needs to be issued immediately, because that sector, like the automotive sector, is a major drain on the country's foreign exchange through imports of goods that actually can be produced by domestic industry." He emphasized electrical generators and heavy equipment, and praised Suharto's auto policy as showing "a new awareness by the government and the public of the need to bring the nation's self-sufficiency in technology and domestic industry to more maturity."

Economic Policy

Egyptian opposition fights privatization

Leaders of three Egyptian opposition parties have taken the government to court to try to stop the sale of state companies to the private sector, a disastrous program they insist is unconstitutional. The heads of the Labor, Tagammu, and Nasserite parties, along with lawyers and members of public sector company unions, appealed to Cairo's Adminis-

trative Court to overturn a cabinet decree that expands privatization, wire services reported on May 14. The opposition parties say privatization is against the constitution which states that the public sector belongs to the people, lawyer Mahmoud Asfour told the court.

The government in February said it planned to sell 100% of 14 industrial companies, as well as part of the equity in at least 42 other companies. Privatization started in the early 1990s under an economic reform program pushed by the World Bank and the International Monetary Fund. The program had made slow progress until the state decided to give up management control in early May of a real estate company, through a sale on the stock exchange, in a move that brokers hailed as a breakthrough in privatization.

The government's lawyer asked for an adjournment to allow the government to present its case. The next session is scheduled for June 4.

Poland

Government told to free itself from 'IMF dictate'

Wojciech Blasiak, a member of the Sejm (parliament) for the Confederation for the Independence of Poland (KPN), the fourth-largest party in the Sejm, demanded that the government free itself from the "dictate" of the International Monetary Fund, at a press conference in Warsaw on May 9.

"We demand, that the foreign policy of Poland take steps to free our country from the dictate of the IMF!" Blasiak said. "Also, looking at the situation in Russia: The IMF policy there is responsible for social tensions, which can become dangerous strategically, and unfortunately, Western countries do not want to help Russia.

"This is especially important, because it brings rationality into Polish-Russian relations at a time when the combination of the debate to expand NATO eastward, and the prominently played upon Polish fear of a 'communist takeover' in Russia, may create strategic troubles in Central Europe after the June elections in Russia."

Chirac forges new 'Entente Cordiale' with the British

by Mark Burdman

French President Jacques Chirac has taken a giant step toward consolidating the disastrous pro-British shift in policy orientation that he had already begun to make, in October-November 1995. From May 14 to 17, Chirac made his first state visit to Great Britain, wining and dining with members of the same British royal family whose irregular warfare apparatus had, only months before, threatened him with assassination.

Immediately before and during his four-day visit, the French President repeatedly stressed his commitment to a reinforced "Entente Cordiale" relationship with Britain. This is a reference to the French-British alliance, fashioned in 1904 by Britain's King Edward VII and pro-British degenerates in France. That alliance—in reality, a capitulation by the French to British imperial designs—was a crucial factor in those processes that led inevitably to World War I.

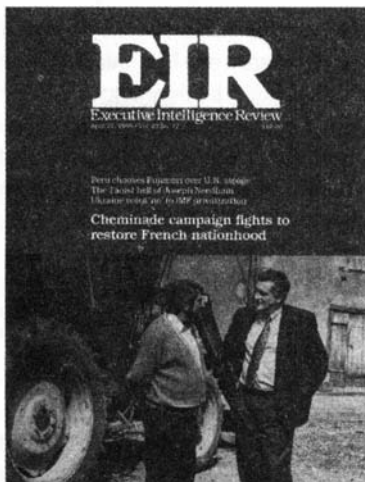
Chirac's Anglophilic diplomacy coincides with, and is directly related to, new moves by the French judicial/political apparatus against Jacques Cheminade, the associate of Lyndon LaRouche who carried the banner for France's "National Party," as a Presidential candidate in last year's national elections. Effectively, Chirac has struck a deal with the British to crush the LaRouche movement in France, at a time when LaRouche is known, throughout the world, as the most outspoken "American System" opponent of the British Empire.

Before his May 14 departure for London, Chirac called a group of British journalists to the Elysée Palace on May 12, for a background briefing. The French President used the occasion to gush about his great affection for things British. "Chirac Rekindles Entente Cordiale," headlined the May 14 London *Times*, by Paris correspondent Ben Macintyre, an attendee at the Elysée. Paraphrasing Chirac, Macintyre wrote

that, for the French President, "the Franco-British alliance is as vital to France as its relationship with Germany. . . . The Franco-German relationship remains central to French thinking, but M. Chirac was at pains to suggest, that that hallowed marriage does not preclude what might be called a 'ménage à trois' at the heart of Europe, with France balanced between Germany and Britain. . . . For a republican, M. Chirac has a strong admiration for royalty and, as a Frenchman, an equally unlikely affinity for all things British. . . . Where his predecessors have tended to view 'perfidious Albion' with at least residual suspicion, M. Chirac is openly Anglophile, and Sunday's informal discussion left no doubt that he intends his presidency to mark a fresh blossoming of the Entente Cordiale. Relations between France and Britain, particularly in the area of defense cooperation, have reached a new level of solidarity, the President said. He applauded what he called the efficiency of the British armed forces, and had especially warm praise for what he called the strong leadership of John Major, the prime minister, with whom he has a close personal understanding."

Both Macintyre and the *Daily Telegraph's* Suzanne Lowry stressed that Chirac was particularly effusive in praise for the economic policy of the British government, contrasting the "success" of the British economy, with the problems suffered by European economies on the continent. This is not only absurd, given the garbage bin that the British economy has become under the successive Thatcher and Major regimes, but is a signal, for what new atrocities the French President has in store for his own country.

Arriving in Britain May 14, Chirac was greeted at Waterloo Station by the queen's bizarre sister Princess Margaret.



French President Jacques Chirac (center). Early in his Presidency, Chirac sided with President Clinton against the British, and showed signs of picking up policy guidelines from Jacques Cheminade, leading associate of Lyndon LaRouche in France (shown on EIR's cover of April 21, 1995).



The British oligarchy moved in to block any such potential, delivering assassination threats against Chirac (shown on EIR's cover of Sept. 8, 1995). Chirac swiftly capitulated, and is now groveling at the feet of the British royal family.

He was taken for dinner to Buckingham Palace where, of course, British beef was featured on the menu. Chirac exulted about how happy he was to eat beef from the British cows that the French government had, only weeks earlier, demanded be slaughtered, after the British government officially admitted that "Mad Cow" disease could possibly be transferred to human beings. Chirac immediately authorized the French delegation to the European Union in Brussels, to push for easing the ban on British beef. Major thanked Chirac, for France's action on this front.

Speaking before both Houses of the British Parliament on May 15, Chirac quoted 19th-century French writer Victor Hugo: "England will always be France's sister." In the speech, he sketched areas of "convergence" between Britain and France, ranging from military operations in former Yugoslavia, to strategic interests backed by nuclear arsenals.

At a May 16 dinner hosted by British Prime Minister Major at London's Hampton Court Palace, Chirac affirmed, "A solid friendship between France and Great Britain is in the nature of things." The French daily *Le Figaro* cited him, claiming that a "personal alchemy" now prevails in the Chirac-Major relationship.

His strange discussion about "the nature of things" and "alchemy" may have something to do with the fact that, earlier that day, he had been together for several hours with the unbalanced Prince Charles. Chirac could find nothing but praise for the work of one of the Prince of Wales' social foundations

in the poorer areas of Great Britain, and promised that Charles's approach would now be adopted in France.

By the middle of his British trip, he was telling journalists and others, that an "Entente *très cordiale*" ("very cordial Entente") prevailed between the two countries, and that this would continue, whoever would be ruling Britain and France in the future.

In line with the extreme Anglophilic posture of the French President, French diplomacy has recently been very active in Russia, closely cooperating with the British. The two countries are trying to convince the Russians that they should see the United States as "the enemy," and that the Russians should align themselves with the Franco-British axis. Knowledgeable sources affirm that this is an unabashed attempt to rebuild the pre-World War I British-French-Russian "Triple Entente."

A most un-cordiale legal onslaught

It is no coincidence, that soon before the French President was gathering with the pack of British journalists at the Elysée, a new "legal" offensive was opened against associates of former French Presidential candidate Jacques Cheminade.

Pursuant to a decision by the Appeals Court on Jan. 16, "execution of the judgment" was served on two associates of Cheminade, Christine and François Bierre, on May 9. Along with Cheminade and, the Bierres had been condemned, on Jan. 16, for "theft," against Mrs. Denise

Pazery, a lady who had died in 1986. This condemnation had occurred, following court proceedings which lasted almost a decade. The Bierres must now repay 1.7 million francs (\$327,000), 500,000 francs of which are accrued interest since 1986, to the heirs of Mrs. Pazery.

Between 1984 and 1986, Mrs. Pazery had made loans and gifts to political causes associated with Cheminade. When she died at the age of 63, her heirs, with whom she had had a cool relationship, went through her papers, and decided to recover these contributions. The case was a travesty, inclusively involving obviously fraudulent interpretations of brain-scans of a deceased person, to substantiate a claim that she had had Alzheimer's disease at the time she gave the money. In fact, she lived alone and unassisted, drove her own car, did all her own banking, cashed promissory notes herself, and managed her credit cards. (For a fact sheet on the case, see *EIR*, Jan. 26, 1996, p. 36.)

As bizarre as the case was, it did keep the albatross of a criminal case hanging around Cheminade's neck, for years. The Appeals Court ruling is all the more damaging, as it follows the infamous, and unprecedented, Oct. 11, 1995 decision by France's powerful Constitutional Council, to deny Presidential "matching funds" to the Cheminade campaign. These moves amount to a violent financial warfare offensive against the LaRouche movement in France.

Dating back to the Mitterrand era of the latter 1980s, there has always been a close link between the "legal" attacks against Cheminade, and crucial twists and turns in the French strategic and political situation. We shall have more to say about this in future articles. Here, we look at the more recent developments, during the Chirac Presidency.

In the beginning, Chirac echoed Cheminade

Chirac's reign began on a promising note, and with echoes of certain of the themes that Cheminade had introduced into the Presidential campaign. Beginning September-October 1995, as the French President cowardly capitulated to a rude and crude British "carrot and stick" strategy toward him, the legal/political offensive against Cheminade and friends took on a new and ominous dimension.

During the spring 1995 French Presidential campaign, Chirac had campaigned on a policy of economic growth and reducing unemployment. Often adopting what some commentators labelled "populist" views, candidate Chirac distanced himself from the pro-austerity, extreme monetarist positions of his main opponent, and fellow member of the "Gaullist" RPR Party, Prime Minister Edouard Balladur.

Once he was elected, Chirac appointed a Cabinet that was an evident compromise among various factions. This included at least one hard-core Thatcherite, Finance and Economy Minister Alain Madelin, a leading figure in the Mont Pelerin Society. Nonetheless, the new President took what seemed to be positive and audacious positions on certain

crucial matters.

At the June 15-17, 1995 Halifax summit of the Group of Seven, Chirac affirmed that measures must be taken to rein in global financial speculation, which he denounced as "the AIDS of the world economy." It was certainly not lost on British observers of French politics, that, on this issue, he had closely aligned himself with the position of Cheminade, who had made this a major theme of his Presidential campaign. Back on April 7, during the election campaign, Reuters' financial wire service wrote, from Paris, that Cheminade "goes around proclaiming on the world financial cancer" brought about by speculation.

As President, Chirac also seemed to be breaking with certain of the axiomatic "geopolitical" features of the François Mitterrand Presidency, especially concerning the war in Bosnia. Whereas Mitterrand had been fully on a pro-Serb course, in tandem with Great Britain, Chirac increasingly identified the Serbs as the adversary. Here, too, it is of immediate relevance, that Cheminade had made the question of Mitterrand's appeasement of Serb aggression, and demands for vigorous action against the Greater Serbs, a key feature of his electoral platform.

By July 25, Chirac's alignment with a tougher Clinton administration approach in Bosnia, and his distancing from British policy, had gone so far, that the daily *Le Figaro* was headlining: "Chirac-Clinton: Entente Cordiale."

Through early September 1995, the French press was speaking of a "common Franco-American political impulse" vis-à-vis Bosnia, resulting from the "determination of Presidents Chirac and Clinton." There were various leaks, anecdotes, and reports in the French press, at the time, indicating that the French-American alignment was consciously directed against Great Britain.

During the same time period, a move was made against the Mont Pelerin networks, with the Aug. 25 dismissal of Madelin. He was sacrificed because of the anger against him among trade unionists and others, in reaction to his demand for large-scale budget cuts and austerity.

British assault, and Chirac's cowardice

By mid-August, the British Crown and its minions counterattacked aggressively. Up to that point, British-directed moves against Chirac were mostly of the order of sniping, as with the mobilization by British Commonwealth assets, directed out of New Zealand and Australia, and in collusion with Greenpeace, against French nuclear testing in the South Pacific. But at some point in August, the networks of Prince Philip's World Wide Fund for Nature (WWF) began circulating a video "commercial," with a simulated death threat to Chirac. Entitled "The Day of the Jacques," it was modelled on the film "Day of the Jackal," depicting the attempts to kill the late French President Charles de Gaulle. The film company that coordinated the film project, Media Natura, was

launched at the 25th anniversary of the WWF in Assisi, Italy in 1986. An official of Media Natura stressed to a journalist that, in the campaign nominally against French nuclear testing, "Chirac is the target."

The full dimensions of, and background to, this royal family assault against the French Presidency, was featured as *EIR*'s Sept. 8, 1995 cover story, under the headline, "British Assassins' Bureau Targets Chirac and Clinton." The information in *EIR*'s possession was made available to the French Presidency.

This affair should have led, minimally, to the expulsion of the British ambassador from Paris. All the more so, as an ongoing summer terror wave in France, by British-controlled Pakistani "Afghan mujahideen," operating under the cover of "Algerian Islamic fundamentalist terrorist networks," was being coordinated and orchestrated out of London.

There must have been some intense discussions in the Elysée and related quarters, and, from evidence at hand, matters were not fully resolved into early October. One indication of this, is that as late as Oct. 7, the London daily *Independent* was still expressing fears, that Chirac would act upon the substance of his Halifax comments on financial speculation as "the AIDS of the world economy," and would enact certain dirigist economic measures, rather than impose vicious austerity on the French population.

Soon thereafter, Chirac capitulated.

He abruptly postponed a scheduled meeting with President Clinton, but did go to London, for a visit beginning Oct. 29. The postponement of the meeting with the U.S. President was all the more galling, as Clinton had initiated, in September, a very promising diplomatic course, when he invited Russian President Boris Yeltsin to the Hyde Park family estate of the late Franklin D. Roosevelt, and invoked memories of World War II American-Soviet cooperation. In FDR's approach, that diplomacy was very much aimed against the imperial policies of British Prime Minister Winston Churchill. By contrast, in visiting Britain, Chirac met with John Major at the Chequers retreat of FDR's philosophical and political adversary Winston Churchill.

In the lead-up to that meeting, the British threw some bones Chirac's way. First, at the same time that the British Commonwealth assets were carrying out disruptive protests in the South Pacific against French nuclear tests, Major became the first Western leader to express unqualified support for France's right to do such testing. Second, the British "blew" some of their own terrorist assets in France, allowing the French police to carry out a well-publicized mop-up operation.

Chirac's arrival in London coincided, more or less to the day, with a visible turn in economic policy. Only two months after the dismissal of Madelin, the substance of Madelin's fiscal austerity/budget-cutting policies was put into effect by Prime Minister Alain Juppé's government. By early Novem-

ber, the government was being streamlined so that austerity policies could be more effectively implemented. Such actions triggered the explosive strike wave in France, the which lasted until the end of the year.

Renewed attack on Cheminade

Also during October 1995, the French elites made some brutal decisions to move against Cheminade. There can be little doubt, that such moves were worked out among the relevant circles in France, their allies in Britain, and the George Bush crowd in the United States.

Keep in mind the date of the cited London *Independent* article: Oct. 7. The next day, in Colorado Springs, Colorado, a high-level meeting took place, sponsored by the George Bush Library Foundation Association and Forum for International Policy. Despite the fact that he was near death from cancer, Mitterrand trekked to Colorado Springs, to meet Bush, former British Prime Minister Margaret Thatcher, and others.

Certain crucial messages were obviously being carried back and forth across the Atlantic, at least some of which concerned the LaRouche movement and Cheminade. The role of the British-born, American ambassador to France, Pamela Harriman, a longtime adversary of LaRouche, is currently under scrutiny.

In any case, on Oct. 11, two days after the conclusion of that Colorado Springs gathering, the French Constitutional Council, a body of nine individuals that has extraordinary powers, made its unprecedented ruling, to deny Cheminade matching funds.

The head of the Constitutional Council, former French Foreign Minister Roland Dumas, had, only months earlier, been appointed to the post, in one of Mitterrand's last acts as President. One month later, Dumas, too, was to pay homage to the Bush crowd, attending a policy conference in Texas sponsored by Bush-era Secretary of State James Baker III.

The Oct. 11 ruling was followed up in January, by the referenced court decision in the above-cited Pazery case. Most recently, has come the action against the Bierres.

None of these actions was strictly, or even primarily, "legal" or "administrative." Cheminade, LaRouche's close collaborator and friend, is linked to a series of policy options: France integrated into a European grand design, British and related imperial politics rejected, and the reconstruction of the world economy on "American System" principles.

Although the main processes against Cheminade et al. were set in motion under Mitterrand, the series of atrocities indicated here, occurred during President Chirac's "watch." They are fully in line with his past months' French Presidential policy turns for the worse. The French President may not be aware of it, but by so acting, and by tolerating the disgusting treatment of Cheminade and associates, he has guaranteed that France, yet again, will be heading for national tragedy.

International Intelligence

Provocative repatriation of Enver Pasha's remains

Turkish President Suleyman Demirel and visiting Tajikistan President Imomali Rakhmonov announced at an Ankara press conference May 5 that the body of Young Turk leader Enver Pasha will be returned to Turkey for a solemn reburial on the Aug. 4 anniversary of his death, the Anatolian News Agency reported. His present burial place is outside Dushanbe, the Tajik capital.

Enver was the British-installed Young Turk ruler whose Pan-Turkic and Pan-Islamic policies triggered the Balkan wars and World War I. Following the war, he fled initially to Bolshevik Russia, and attended the infamous 1920 Baku Conference. He was later killed leading an Islamic revolt in Central Asia against Russian rule. The Pan-Turkic and Islamic movements, currently leading a bloody revolt against Russia in the Caucasus, look to Enver as one of their founding fathers. Since Ataturk created modern Turkey in the 1920s, until recently, the Young Turks, and the movements linked with them, were figures of hatred and contempt. The reburial typifies, and will contribute to, the imperialist neo-Ottoman, anti-Russian mood sweeping Turkey.

Russian journal publishes Helga Zepp LaRouche

Issue No. 2, 1996, of the *Russian Analytic Review*, includes an English-language essay by Schiller Institute founder Helga Zepp LaRouche on "The Question of the Legitimacy of Power in the World Today." The article reviews the false "legitimacy" of the Nazi regime that "legalized" its grab for power in a 1933 election marked by repression and intimidation.

"There can be no doubt, that today, once again, we are living under policies whose consequences have cost the lives of literally millions of human beings. So, with that in mind, are 'democracy' and the 'free market' really self-sufficient value; or, rather, is it

not more appropriate to pose the question of the legitimacy of the political structures which have been built upon the basis of such policies?"

She cited Friedrich Schiller's essay comparing the laws of Solon in Athens and Lycurgus of Sparta, affirming: "The legitimacy of state power must be measured against nothing less than the purpose of all humanity, a purpose which goes hand-in-hand with universal moral law."

Those who continue to violate the moral law and humanity, shall know, that they "challenge the indomitable power of the universal court of justice," that they will be revisited by Nemesis, the principle of justice developed poetically by Greek drama, and later by Shakespeare and Schiller.

Zepp LaRouche proposed "the criterion of mankind's continued survival as our measure for the legitimacy of today's rulers' power," concluding, "What an outrageous, monstrous crime! And how grandly, how monstrously does Nemesis threaten to respond to it!"

Peña Gómez falls short in Dominican vote

José Francisco Peña Gómez, the Presidential candidate of the pro-drug Inter-American Dialogue, was ahead but fell short of the 50% needed to avoid a run-off in the elections held May 16 in the Dominican Republic. A second round of the election, scheduled for June 30, will pit Peña Gómez against his nearest rival, Leonel Fernández, of the Dominican Liberation Party.

In 1994, Peña Gómez also conceded that incumbent President Joaquín Balaguer had "won a narrow victory," but retracted his statement after U.S. Ambassador Donna Jean Hrinak accused Balaguer of committing fraud and proclaimed Peña Gómez the winner. *EIR* sources in Santo Domingo believe that Fernández will likely get the votes of the supporters of Vice President Ignacio Peynado, who came in third on May 16, and he should defeat Peña Gómez in the June 30 run-off.

The elections were relatively peaceful and there were very few complaints of irregularities. Even Organization of American States Secretary General César Gaviria, who was in Santo Domingo to observe the elections, had to admit that "the irregularities were few. I congratulate the Dominicans."

Three days before the elections, a well-known, hard-line general was brought back from retirement and put in charge of the police. The military were made into a special Electoral Police and deployed in force to keep order. International "observers" and media were barred from where the votes were being counted; the government established a single national radio and TV network, under the authority of the electoral board, which was the only source authorized to broadcast election results.

It was also key that there was widespread denunciation, prior to the election, of the "Philippines scenario" to declare Peña Gómez President before the vote was counted, as had happened in the Philippines in 1986. *El Nuevo Diario* was the only daily that dared to publish an article by *EIR* Caribbean analyst Carlos Wesley on May 7, exposing such a plan, but the article was discussed on television that same day.

Prodi presents government in Italy

Romano Prodi, leader of the "Olive Tree" coalition, officially received from Italian President Oscar Luigi Scalfaro the mandate to form a government, and within 18 hours of receiving it, presented the complete list of ministers on May 17. The strongman in the cabinet will be former central banker Carlo Azeglio Ciampi, who has both the Treasury and Budget portfolios, giving him full power in drafting budget plans according to the infamous Maastricht Treaty guidelines. Ciampi has already vetoed the "correction maneuver" which outgoing Premier Lamberto Dini was supposed to announce before he passed the baton to Prodi.

The correction—or cut, which is supposed to cover the shortfall of the 1996 bud-

get—was judged “insufficient” by Ciampi; the cuts will now be implemented by the new cabinet, together with next year’s austerity plan. The Prodi-Ciampi team is going to camouflage its harshness by a deal with the trade unions.

Antonio Di Pietro, the prosecutor who ran the “Clean Hands” scandals that demolished Italy’s traditional parties, was named to run the Public Works Ministry. Since even Romano Prodi was investigated by Di Pietro, this government has the greatest built-in potential for mutual blackmail. Di Pietro, in turn, while Prodi was presenting his cabinet list May 17, was being interrogated in the context of the “Phony Money” investigation which involves jailed separatist Gianmario Ferramonti and the Bush-Baker legal firm.

The post-communist PDS, despite the fact that they provided the organizing machine and are by far the biggest party in the Olive Tree, is poorly represented in the cabinet. They have the vice premiership (Walter Veltroni) and nine ministers overall, but of strategic ministries, they hold only Interior, which runs the police and internal secret services, and Finance.

German repatriation plan will heat up Kosova

Klaus Kinkel, German foreign minister, in his first official visit to Belgrade, Yugoslavia since the war, announced in May that 120,000 Kosova Albanians, who had been denied asylum in Germany, shall be sent back to Yugoslavia in the next couple of months. Details will be worked out between Belgrade and Bonn in the coming weeks. So far, Belgrade had refused to let the Kosovars enter the country again. On April 20, eleven Albanian citizens from Kosova, who had been flown back from Germany and landed in Belgrade, were not allowed to return to their homes, although they are in possession of valid Yugoslav passports.

The German policy to send them back to Kosova, where the repression against the majority ethnic Albanian Muslim population by Serbian police is unbearable, will

provoke extreme tensions in the area and possibly reverberate in Germany. Already, some provocative terrorist attacks by militant “Albanians” have taken place against Serbian targets in Kosova, leading to further repression. For years, the leadership and the population of Kosova have held out by completely peaceful means of resistance.

The United States has expressed grave concern over the aggravation of the situation in Kosova. There were talks between Secretary of State Warren Christopher and the Kosova representative in Washington, Alfred Sereqi on May 9. The U.S. government recently sent a temporary representative to the region’s capital, Prishtina, aiming to soon open the U.S. consulate there, and U.S. Rep. Eliot Engel (D-N.Y.) stated that the American government is demanding that Belgrade guarantee all human and political rights for the Albanian population in Kosova, as well as the reinstatement of the Albanian language in the schools.

Egypt starts to mend fences with Sudan

Usama Al-Baz, the personal adviser to Egypt’s President Hosni Mubarak, said on May 6 that “Egypt will oppose any policy which would harm the interests of the people of Sudan, and the division of its land.” He added that “Sudan is the twin brother of Egypt.” Nonetheless, Al-Baz stressed that the Sudanese regime has been proven to have planned the assassination attempt against Mubarak, the London-based Arab paper *Al Hayat* reported on May 7.

Egyptian Foreign Minister Amr Mousa has stressed Egypt’s absolute opposition to any attempts to separate south Sudan and effect the division of the country, and to threaten the national security of Egypt through extending military support to the secessionists in south Sudan.

Sources close to the Egyptian government told *Al Hayat* that “the interests of Sudan and Egypt are interrelated and inseparable, despite the conflict with the regime in Khartoum.”

Briefly

HELGA ZEPP LAROCHE, president of the Schiller Institute of Germany, addressed the International Symposium on Economic Development of the Regions along the New Eurasian Continental Bridge, held in Beijing, China, on May 8.

BRITISH-CONTROLLED ethnic rebels in Burma (Myanmar) are under pressure to come to terms with the government, after the surrender of Khun Sa’s army and a deal with the main Karen group. A source told Thailand’s *Bangkok Post* May 13, that the 21 members of the Democratic Alliance of Burma are meeting to decide whether or not to continue their armed struggle.

INDONESIA’S decision to build a nuclear plant was attacked by dissident academic George Adicondro, in exile in Australia, in an Internet interview May 13. He accused President Suharto and the leading nationalist in the cabinet, B.J. Habibie, of being motivated by family connections to industries involved.

AMNESTY International sent a letter to the Russian Procurator’s office, the Interior Ministry, and law-enforcement agencies in Moscow, expressing concern over the Moscow police persecution of Chechens, the *Ekspress-Khronikha* reported on May 16. The Chechens play a dominant role in the Russian mafia.

ISRAELI Prime Minister Shimon Peres reportedly met in secret with Lubavitch millionaire Rabbi Yossef Yitzhak Gutnick. According to *Maariv*, Peres asked Gutnick to cease his operations against the Labor Party. Gutnick’s crony, Rabbi Avraham Hecht, issued the rabbinical ruling calling for Rabin’s assassination.

MICHEL AOUN, Lebanon’s former prime minister, has been denied permission by French authorities to travel from his home in exile in Paris to address the European Parliament in Strasbourg. Aoun openly accuses Syria of “occupying Lebanon.”

Dole resignation means big trouble for Clinton and Dole

by Jeffrey Steinberg

Majority Leader Robert Dole's surprise resignation from the U.S. Senate on May 15, to devote full-time attention to his flagging Presidential campaign, has given the radical free marketeers of the British Crown's Mont Pelerin Society temporary control over the U.S. Senate, as well as the House of Representatives. This spells bad news for both President Clinton, and his likely Republican Presidential rival, Dole.

Barring a personal intervention by Senator Dole, before he leaves office in early June, the new Senate Majority Leader will be Trent Lott (R-Miss.), an aggressive proponent of the Contract with America and every other radical austerity and anti-government measure peddled by House Majority Leader Richard Armev (R-Tex.), Speaker of the House Newt Gingrich (R-Ga.), and the "Conservative Revolution" think-tanks that this magazine exposed in February 1995 as a British "fifth column" in Washington, devoted to the destruction of the United States as a Constitutional republic.

Lott's rise to the top of the GOP Senate leadership was underwritten, every step along the way, by the hard-core British faction within the GOP. Lott was handpicked in 1971 by Mont Pelerin Society members Rep. Phil Crane (R-Ill.) and Edwin Fuelner, Mont Pelerin treasurer and president of the Heritage Foundation, to be part of a radical "march through the Congress." Lott's Congressional campaign the following year was bankrolled by the American Conservative Union's director, Larry Pratt, who today is a leading propagandist for the militias, and the idea of the balkanization of the United States.

By 1988, having clawed his way to the number-two position among the House Republicans, Lott moved over to the Senate, and turned over his House leadership post to his protégé, Newt Gingrich. After just six years in the Senate, Lott seized the number-two post of Majority Whip, in what was understood to be an anti-Dole move by the "Conservative

Revolutionists" in the House of Representatives.

Although the Gingrich-Armev "revolution" ran aground early this year, following the Speaker's discredited efforts to hold the federal government hostage to his drive to decimate Medicare and Medicaid, in order to pass tax breaks on to Wall Street's speculators, these Jacobins have by no means given up the fight. The ascent of Lott to the Senate leadership post, virtually assures that President Clinton, if he is re-elected, *without also winning back Democratic Party control over the Congress*, will be "Whitewatergated" out of office, and, perhaps, even framed and railroaded into jail, before you can say "Richard Nixon."

British faction mobilized

The mobilization of the hard-core British faction within the GOP was evident at the May 20 awards dinner of the *American Spectator*, which took place in Washington. The *American Spectator* is a monthly magazine run by Tory propagandist Conrad Black's Hollinger Corp., on behalf of the British oligarchy. It has led the assault against President Clinton since the early days of the administration. The awards dinner was bankrolled by Mont Pelerin money-bags, and leading Clinton-basher, Richard Mellon Scaife, who arranged to have Sir Henry Kissinger appear as the keynote speaker. Kissinger delivered a no-holds-barred attack against President Clinton. Conrad Black, a member of Prince Philip's "1001 Club," showed up to receive the magazine's "man of the year" award. The *American Spectator's* editor-in-chief, R. Emmett Tyrrell, Jr., is soon to publish a slanderous biography of the President, titled *Boy Clinton*, which has begun to receive pre-release publicity.

Dole's departure from his post as Senate Majority Leader, far from giving the Kansan more freedom to pursue his Presi-

dential campaign, will give the Mont Pelerin crowd even greater control over the GOP.

Stephen Moore, a Mont Pelerinite and adviser to House GOP leader Armev, who personally wrote much of the Contract with America, could hardly conceal his glee at Dole's resignation. In an interview with the *Chicago Tribune*, published shortly after the Senate Majority Leader's press conference, he said: "A Dole administration would be vastly different from a Clinton administration. . . . *Not that Bob Dole is all that different from Bill Clinton, but domestic policy in this country would be made by Lott and Gingrich.* . . . All those things that Clinton vetoes—tax cuts, a capital gains tax cut, product liability reform, a balanced budget, welfare reform—would happen in the first 100 days of a Dole administration" (emphasis added).

Dole was targetted

Dole's departure from the Senate had all the hallmarks of a dirty tricks effort *against* the Republican Presidential nominee-apparent by the British wing of his own party. Short of campaign cash, following a tough early primary battle against Pat Buchanan and billionaire Malcolm Forbes, Jr., Dole had hoped to spend the next several months "campaigning" from the floor of the Senate, by reasserting his leadership of the party's Congressional majority. Instead, he found himself confronted by a revolt of the "Conservative Revolutionaries" on a number of policy fronts, including the still-unresolved fight over an effort by Democrats to increase the minimum wage.

When a group of Republican legislators came back from Easter recess, convinced that they would lose re-election unless they withdrew their opposition to the minimum wage hike, Armev, who has taken over the day-to-day management of the Congress from Gingrich, announced that he would rather die, than allow the raise to pass. This prompted a series of public attacks against Gingrich and Armev by Dole's Congressional allies, including Sen. Al D'Amato (N.Y.), chairman of Dole's critical New York campaign committee, and Rep. Peter King (N.Y.). King accused Armev of pandering to a bunch of "hillbillies at a revival meeting" by abandoning the "Reagan Democrats"—the northeastern and midwestern blue collar, ethnic, largely Catholic voter bloc, that swept Ronald Reagan into the White House in 1980. Armev in turn condemned King for "pandering to union bosses." The Congressional GOP, in short, far from rallying behind Dole, began coming apart at the seams, effectively driving Dole out of Washington before his campaign was killed altogether.

Dole had already signalled his desperation, and his willingness to make peace with his worst enemies within the GOP ranks, by a day-long meeting with former President George Bush, earlier this year. Within a week of his Senate resignation, Dole held another highly publicized session, with Malcolm Forbes, Jr., after which he announced that Forbes (who has peddled a flat tax scheme that would eliminate all taxes

on speculative profits), will serve as an economic policy adviser to his campaign.

Frontal assault on labor

A week before Dole's resignation announcement, Rep. John Boehner (Ohio), the head of the House Republican Conference and a leading Gingrichite "Jacobin," received a staff memorandum titled "Washington Union Bosses/Alleged Affiliations With Organized Crime," calling for the Congressional Republicans to launch a public attack against the AFL-CIO, to counter the labor movement's announced war against the radical free-market Republicans. According to the memo, which was revealed in a Robert Novak column published in the *Washington Post* the day after Dole's resignation from the Senate, Boehner and the Gingrich-Armev-Lott crowd plan to stage a series of Congressional show trials, targeting AFL-CIO President John Sweeney, Teamster President Ron Carey, White House Deputy Chief of Staff Harold Ickes, Jr. (a New York labor lawyer), and Laborers President Arthur Coia, as front men for organized crime. According to Novak, Rep. Bill McCollum (R-Fla.) will lead the witch-hunt through "oversight hearings" by his House Judiciary Subcommittee on Crime this summer.

The planned assault on organized labor was launched in the April 1996 issue of *Reader's Digest* by Senior Editor Eugene Methven, who penned an article, titled "The Clintons and the Union Boss," which focussed on First Lady Hillary Rodham Clinton's ties to Laborers' President Coia.

Methven's role in the latest "Get Clinton" offensive is no surprise, since he is no stranger to political dirty tricks. During the 1982-88 Henry Kissinger-led frameup against Lyndon LaRouche, Methven was a participant in the "salon" of Wall Street investment banker and leading Iran-Contra covert operator John Train. At the behest of Kissinger and Bush, Train assembled a collection of media scribblers, including Methven, NBC producer Pat Lynch, writers and editors from the *Wall Street Journal*, *Business Week*, *New Republic*, etc.; along with representatives of the Anti-Defamation League of B'nai B'rith, and officials of the Bush-North National Security Council apparatus. Their job was to coordinate a black propaganda campaign that would create the climate for a juridical railroad of LaRouche. Financing for the effort came from, among others, Richard Mellon Scaife.

Following President Clinton's election in 1992, and the outbreak of a "war and a half" between Washington and London, this same apparatus was mobilized to lead the propaganda offensive against the Presidency, which LaRouche exposed in a widely circulated Spring 1994 document issued by his Democratic campaign committee, "Assault on the Presidency." Now, the same crowd, with the backing of the British-backed caucus in the GOP in Congress, is out to block President Clinton's 1996 reelection drive, as well as the effort by organized labor to defend living standards, following 16 years of self-destruction under the presidency of Lane Kirkland.

National News

James Galbraith attacks Federal Reserve's myths

Economist James K. Galbraith, the son of John Kenneth Galbraith (former adviser to President Kennedy), delivered a presentation in Washington May 14 entitled, "Who Made Alan Greenspan God Anyway?" Addressing the Economic Strategy Institute, he refuted some of the absurdities now promoted by the Federal Reserve Board and Greenspan, including the laugher that increasing employment and wage levels must lead to inflation.

Using charts going back to the late 1950s, Galbraith argued, "We are facing a paradox: You read in newspapers that the economy is doing fine, but in the same newspapers, you also read that people believe they are worse off today than they were yesterday." By historical standards, he said, the economy is not doing that well.

Galbraith emphasized that public expenditures on vital infrastructure, even in the nation's capital, have been "deeply neglected since the early 1980s. . . . Now, are we in fact so poor, that we need to make a mess of the place we live in, by neglecting them, by refusing to spend on streets, bridges, and water systems, on schools and other public facilities, on libraries and cultural facilities? I don't think so. I don't think that there is any economic necessity for doing that."

Queen's knights infest D.C. National Cathedral

At an obscene oligarchical ritual, performed May 11 at the National Cathedral in Washington, D.C., the American Society of the Order of St. John of Jerusalem swore allegiance to Britain's Queen Elizabeth II, and founded the first "priory" of the Order in the United States. Costumed bigwigs from various branches of the Order trooped about to blaring trumpets, before a flag with lions rampant, and a ceremonial sword upon the altar.

A "mandator" then asked the Grand

Prior (a cousin of the Queen), "Your Royal Highness: whereas Elizabeth the Second, by the Grace of God, of her divers Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith, the Sovereign Head of our Order, has been pleased to sanction the constitution of a Priory of our Order in the United States of America, is it the wish of Your Royal Highness that such a Priory be constituted?" The Grand Prior responded: "It is."

John Rozet Drexel IV, "Knight of Grace of said Most Venerable Order," was then installed as Grand Prior of the U.S. Priory, "in the name of Her Majesty Queen Elizabeth, the Sovereign Head of our Most Venerable Order." The ceremony included a prayer for the Queen, "that under her we may be godly and quietly governed," topped off by the knights singing the British anthem, "God Save the Queen."

LaRouche takes 13.8% in West Virginia primary

Democrats in West Virginia on May 14 gave Lyndon LaRouche his highest vote yet in a two-way primary race with President Clinton. According to the unofficial statewide tally, LaRouche received 41,240 votes, or 13.82%, despite a continuing media blackout, and an attempt to sabotage LaRouche's campaign by corrupt elements in the Democratic Party, led by Democratic National Committee Chairman Don Fowler.

In the May 14 Nebraska primary, LaRouche won 10,255 votes, or 11.19%, in another two-way contest with President Clinton. The West Virginia and Nebraska results brought LaRouche's total vote to more than half a million (523,493) in the primary elections to date.

In a statement issued May 15, LaRouche declared, "Taken together with other election results since the end of February, the votes cast in Nebraska and West Virginia show a solid trend. I represent now more than 10% of the Democratic Party vote for the coming, November general election. This represents the probable margin by which the November 1996 Presidential and congressional elections will be won or lost.

"A more precise estimate of my cam-

paign's present and future influence must take into account the fact, that, up to this date, there has been a virtually total blackout of even the mere fact of my candidacy by all network television news, all international press agencies, and most leading daily press throughout the United States. This has continued despite the fact that I won a larger vote than Republicans such as Pat Buchanan and Steve Forbes in primary elections. If one takes into account what my vote would have been had there not been a virtually total blackout by the leading television and print news media, my candidacy is a major factor in the coming general election."

LaRouche concluded, "Right now, the Democratic National Committee is considering seriously, whether to dump National Chairman Don Fowler, or risk losing both the 1996 congressional and Presidential elections."

Despite the blackout by the major news media, LaRouche—alone among all contenders in both parties—has appeared on three prime-time, half-hour television broadcasts nationwide, paid for by his campaign. A fourth broadcast is scheduled to appear on the Fox television network on Sunday, June 2, at 9:30 p.m. EDT. The program will emphasize LaRouche's proposals for urgent changes in U.S. policy toward Russia, where the candidate recently concluded a week-long series of high-level discussions.

N.J. bill would penalize corporate 'downsizing'

Legislation was filed in the New Jersey General Assembly May 2, which would require corporations to make financial compensations to laid-off employees and affected communities. The proposed Job Destruction Penalty Act applies to corporations with over 100 employees, which make permanent layoffs of more than 25 workers. The bill would require that those laid off be paid two months' severance for every year of service; and that communities be compensated at a rate of \$4,000 per employee, for the resulting loss in jobs and tax revenues.

The bill itself, which is backed by the state's AFL-CIO Industrial Union Council, documents the depth of the depression in

New Jersey, once among the leading industrial states in the nation. One-third of its manufacturing jobs have disappeared since 1979; and total manufacturing employment has fallen below 500,000 for the first time since before World War I.

Between 1988 and 1994, New Jersey's 100 largest firms reduced their total payrolls by 65,000 jobs, or 12%; and 27,000 layoffs were announced in 1995, more than double the number in 1994. From November 1991 through February 1996, some 474,000 laid-off New Jersey workers exhausted all available state and federal unemployment benefits, without being able to find new employment—giving New Jersey a “benefit exhaustion rate” of 47%, the highest in the nation.

New Jersey's home mortgage foreclosure rate is also the highest in the nation, as is its average per-capita debt. Housing construction during the 1990s has dropped to the lowest level since World War II.

Nurses denounce threats to safe hospital care

Thousands of hospital nurses rallied in the nation's capital May 10, demanding federal legislation to protect hospital patients from the cost-cutting schemes of hospitals, HMOs, and health insurers, aimed at dismantling the traditional system of safeguarding patients with qualified nursing staff.

According to the march's organizer, registered nurse Laura Gasparis Vonfroglio, over 10,000 hospitals are restructuring patient care, using low-paid, unlicensed aides to replace professional nurses. Despite the fact that most patients today enter hospitals sicker than ever before, hospitals are cutting costs by “de-skilling” their workforce, while increasing the workloads of their few remaining nurses.

Hospitals currently pay millions of dollars to consultants, to help them cut costs. The most experienced and educated hospital nurses are increasingly replaced by unskilled aides who, after a few days training, are assigned to take blood, or insert catheters, or check ventilators and heart monitors. In a number of cases, patients have reportedly died, when aides ignored the monitor

alarms or fell asleep.

Additional millions have been spent on plans to “retrain” nurses to care for patients with only untrained staff. One plan urges nurses to “construct a vision”; “empower the center”; and “construct a new architecture.” Another adapts the American Airlines method of tracking luggage, to tracking hospital patients.

Predictably, hospitals are now chronically short of qualified staff. Nurses are required to work overtime, with few days off; to work double shifts and swing shifts in the same week; and to fill in wherever there are shortages. A cardiac-care nurse, who has none of the skills or experience needed to save the lives of premature infants, might be put in charge of NICU. Meanwhile, should a critically ill infant die, that nurse is legally responsible. Nurses who refuse mandatory “floating” are fired.

Maurice Strong named to White House tech panel

The Toronto *Globe & Mail* reported May 14 that Canadian arch-genocidalist Maurice Strong has been appointed co-chairman, with Vice President Al Gore, of the White House Conference on Technology. Strong is already serving as special adviser to World Bank President James Wolfensohn.

The *Globe & Mail* claims that Maurice Strong is “now perhaps the most influential Canadian in Washington.” Strong organized the United Nations' 1992 conference in Rio de Janeiro to promote a global environmentalist dictatorship, and was the official secretary general at the proceedings. Immediately thereafter, given charge of Ontario Hydro, the largest public utility in North America, Strong fired 10,000 highly skilled workers within a year, and canceled all nuclear and hydroelectric energy development projects.

Strong told the *Globe & Mail*, “I'm now working on a major project to ‘green’ private investment—to set up voluntary guidelines and criteria for private investment in various sectors, forestry, tourism, mining, oil and gas.” Commenting upon rumors that he could become the next secretary general of the United Nations, Strong said, “I do not have to head it, in order to save it.”

ZERO-SUM ECONOMIST Lester Thurow says benefits for the elderly must be slashed to save democracy. “Democracy is not yet a survival-of-the-fittest species,” He wrote in the *New York Times* May 19; but it “is going to meet its ultimate test in the elderly. If democratic governments cannot cut benefits that go to a majority of their voters, then they have no long-term future. No other investments can be made until those benefits are brought under control.”

JOHN KERR, Britain's ambassador to Washington, wants the United States to have more confidence in the United Nations—and pay its “ar-rears” to the global body. “We British are especially interested in this,” he said at a recent press conference, “since the money goes to peacekeeping, for which we have a particular responsibility.”

REP. MAJOR OWENS (D-N.Y.), denouncing the Republican budget plan which passed the House May 16, warned that, “by continuing to insist that the Medicaid entitlement be eliminated, [it] poses a clear and present threat to the health and life of millions of Americans. By abandoning health care to the states, the Republican budget opens the door to decentralized genocide.”

AMERICAN WORKERS have increasingly been reduced to below-poverty wages, according to the U.S. Bureau of Labor Statistics and the Economic Policy Institute. In 1993 dollars, the portion of the U.S. labor force earning less than \$5.20 per hour, soared from 4% in 1979 to 11.5% in 1989, and hit 13% in 1993.

THE ROUTE taken by civil rights marchers from Selma to Montgomery, Alabama in 1965, has been designated by Congress as a national historic trail. Backing the measure in the House May 14, John Lewis (D-Ga.), who was badly beaten on the march, said, “This route made a contribution to opening up the democratic process for all Americans. I feel blessed that I had a little role to play.”

A managed depression is no recovery

The only good aspect of the 1994 U.S. congressional election, is that the neo-conservatives have so thoroughly discredited themselves, that there is now a broad-based movement coming into being to rebuild the Democratic Party around an economic program which would reverse the last 25-year economic downslide. This political tendency includes a grouping in the U.S. Senate and House of Representatives, state legislators, union leaders, and LaRouche Democrats.

We are seeing the development of an active grass-roots profile, in which a catalytic role is being played by the AFL-CIO, to retake the House for the Democratic Party. This will likely assure the President's re-election and, in the process, has the potential to re-create a policy matrix and a commitment as popular and powerful as President Franklin Roosevelt's New Deal coalition of the 1930s.

Since 1971, the U.S. economy has been contracting at a rate of approximately 2% per year—in physical economic parameters. We see this reflected today in the doubling of health care and education costs for a typical family. Along with the shift out of productive employment, in industry and agriculture, into service sector jobs, there has been a commensurate decrease in pay, so that in many families, not only do both parents work, but, sometimes, at more than one job each.

Most Americans know all too well that the country is in a depression, and they want to do something to change the situation. This is also becoming clear to many Republicans, who do not wish to be destroyed in the backlash against the Gramm-Gingrich fascist gang. The problem is that too few Americans understand how things have come to this point.

They do not realize that decisions made over 25 years ago by a small group of oligarchs, centered in London, determined the world of today. Spokesmen for these oligarchs even wrote about it in 1954, in a book called *The Triple Revolution*. In it, they outlined their program for what they called the post-industrial society. Their idea was to create a creeping, managed depression, which would not be recognized as such until it was too late to do anything about it.

Fortunately, they were not unopposed. Throughout those years, Lyndon LaRouche has been uncompromising in exposing and opposing the individuals who spawned this fascist policy, as well as their plans to implement it. Now, in this election, there is a unique opportunity to turn back the clock, as it were. The first step is to tell the truth about the state of the economy: There is no recovery. In fact, the U.S. economy has been in the grips of a managed depression for the past 25 years. While the top 10% of the population see their incomes zooming, 60% of the population are sinking into destitution, and for the remainder, things are not that much better.

It is essential that the Federal Reserve System be taken under government control in order to end the parasitic, speculative economy which is destroying the United States and the rest of the world. Indeed, almost every policy change implemented within the past 25 years must be rescinded, most emphatically the deregulation and so-called privatization of the economy.

It may surprise many, that planning for the present depression, including such atrocities as the downsizing of industrial firms, began in the 1960s. The idea was to force a shift globally, out of agricultural and industrial production; the goal was a revival of the British colonial empire.

To do this, ideologues in the pay of the House of Windsor began to churn out documents about the "alienation" which was afflicting people as the world became more affluent. This was the beginning of a paradigm shift into the so-called post-industrial society, and included the subversion of young people into the rock-drug-sex counterculture and the spawning of the environmentalist movement.

All of this was personally directed at that time by Prince Philip, the Duke of Edinburgh, consort of the Queen of England, and Prince Bernhard of the Netherlands, a former member of the Nazi SS. Bernhard was an official of the Dutch government, a co-director of the Bilderberg Society, the 1001 Club, and the World Wildlife Fund. To ensure an economic recovery, power must be wrested from the hands of these oligarchs.

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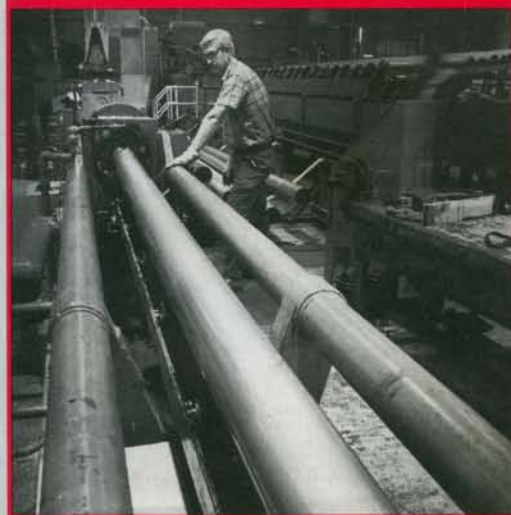
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