

How to finance the Eurasian Land-Bridge under conditions of financial crisis

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I would like to focus on the question of how to finance the Land-Bridge, no matter what happens with the international financial system.

I think that in the recent period, there has been a complete change in the estimate of the severity of the financial crisis. As a matter of fact, when I and a delegation of the Schiller Institute were in Beijing in September last year, I presented there the analysis of Mr. LaRouche, that by the end of October, the beginning of a global financial disintegration would begin. And, at that point, that was not exactly the dominant view in Beijing. As a matter of fact, you had a very optimistic outlook presented at the 15th Party Congress of the Communist Party, which was not considering the possibility of a financial collapse.

I predicted that by the time of the summit between President Jiang Zemin and President Clinton in October [1997], this crisis would have begun, and would shape the discussion. The collapse did begin, and, since November, there has been a sense of shock among all the leading circles around the world, who generally recognize that the so-called Asia crisis is not a regional crisis or a cyclical crisis, but a systemic global and financial crisis.

Since then, there has been a dramatic shift in the mood of the people, and it is expected that a more severe round of this financial crisis will hit soon, no later than the end of March. In China, there has been, since November, one emergency conference after the other, where the Chinese leadership discussed what lessons to draw out of the Asia crisis. And the government announced 15 measures to protect the Chinese economy from the effects.

In my view, the most important of the measures was what Chinese Vice Premier Li Len-ching announced at the Davos World Economic Forum, that at the center of the countermeasures China is taking, is the plan to invest \$750 billion into infrastructure in the next three years. There will also be strict control, according to this Vice Premier, over the construction of office buildings, auditoriums, and guest houses—in other words, to curb the speculative bubble in the construction sector.

But selectively, there will be an increase of public spending in irrigation and water supply facilities, agriculture, infra-

structure, railways, highway transport, and, also, the housing sector. The focus will be China's interior regions, which will also create numerous job opportunities.

There are supposed to be three sources of funding. One, is the huge domestic savings, which is about \$875 billion. The second source of funding, is improving tax collection, and third, foreign investment. He said that China still expects to attract large amounts of foreign investment.

Now, because this could become problematic, I want to discuss, in this context, the question of a different kind of financing, namely, the question of national banking, in the tradition of the first Secretary of the Treasury of the United States, Alexander Hamilton. Because, as President Jiang Zemin said at a conference in November, if there were to be big financial storms, China might not be able to rely on international financial aid or investments, because China would not submit to the conditionalities demanded by the international financial institutions.

The crisis deepens

Now, I want to give you, very briefly, some of the elements that show why the line given out at the Davos conference, that everything is under control, is completely ridiculous. None of the IMF packages has worked. In South Korea, the creditor banks were able to roll over \$24 billion in foreign debt, and turn them into two- to five-year bonds, and this was called a big breakthrough, and a solution to the South Korea crisis. The reality is that this covers only 15% of the South Korean debt, and by the end of '98, the total foreign debt of Korea will be \$170 billion. But the much bigger problem is the domestic debt, a \$300-600 billion domestic debt in Korea.

In Japan, despite the mega-bailout of about \$500 billion, there is still a growing danger of a domino collapse of the Japanese banking system. And, naturally, there is the huge exposure of Japan in Southeast Asia. Indonesia is at the point of total disintegration. The debt has become completely unpayable. Fortunately, the idea of a Currency Board has been thrown out the window, because this would have been the death knell for the country. . . .

But, the much bigger problem is the derivatives problem, which is about to explode in Southeast Asia, especially in the case of South Korea, where, because of the collapse of the currency, there are many court cases now in which Koreans are

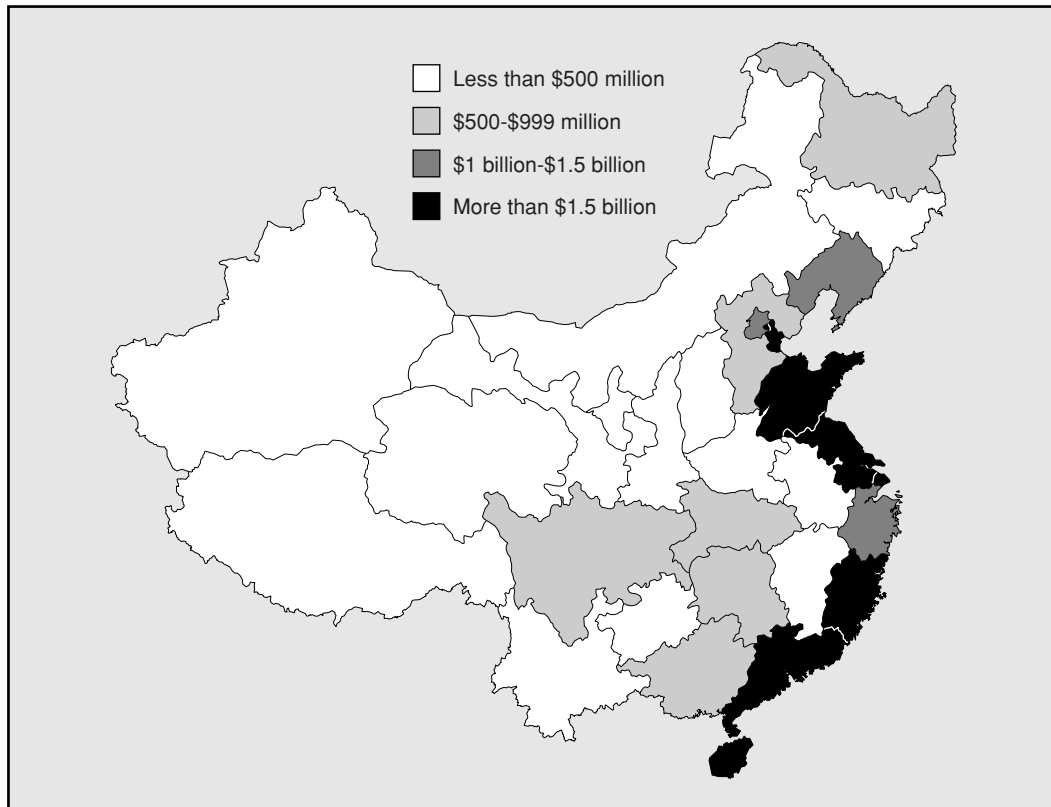


FIGURE 1
Realized foreign investment in China, 1995

suing J.P. Morgan and others, for not having warned them about the danger of the derivatives problem. Many people in the region would buy cheap Japanese credits to buy large amounts of Asian currencies, based on the assumption that these currencies would remain stable, and when they collapsed, all these calculations went out the window. So therefore, the derivatives problem in Southeast Asia is a time-bomb.

The need for Hamiltonian banking

Now, all of this will, undoubtedly, have a big effect on China. Therefore, the policy of developing the interior region is all the more important, because a lot of the foreign investments in China were only in the coastal and southern parts of China (**Figure 1**), and what will happen to these kinds of investments is now a question mark.

This underlines the urgent need for capital formation in the inner regions. There must be a shift away from reliance upon exporting consumer goods, into long-term development of infrastructure and related development internally. Now, the big question is, will foreign investors invest in this? I have argued that China, under such conditions, is the only safe place to invest. But, it must be into long-term infrastructure development.

So, the question is, how to finance the necessary scale of major infrastructure projects and improvements in industry. Now, the Eurasian corridors — which is not only the question of transport, but the building of new cities, new power plants,

new industrialization along these infrastructure grids — must be financed through a combination of state investment and credit generation by a national bank. Now, in the best case, it will be possible to finance, or get some international loans to finance transfer of advanced technology being imported by China, through such mechanisms as, for example, the Hermes credit in Germany.

But, as a Chinese patriot, you must think about the worst-case scenario. What if these financial storms temporarily mean that there will be *no* foreign investment? In this case, you must stress expanding domestic production, in order to supply the largest portion of the equipment and materials required for the national projects. And, since the Eurasian Land-Bridge is not a project of one country, but of the many countries participating, the credit and banking systems of the various nations must be reorganized to function on the principle of a national bank, in each case.

Now, Hamiltonian banking, or national banking, means nothing other than the expansion of the amount of credit provided for productive investment in infrastructure, agriculture, and industry, through new currency being issued, which then is injected into the economy, which means the national bank has to give low-interest credit for rigorously defined purposes. On a world scale, we are talking about trillions of dollars of such new credit to be created. And this is only for the initial phase of the recovery.

One big argument always used against this form of na-

tional banking, is that it causes inflation. But that depends entirely on how the credit is being used. It is very easy to create credit. Today, you have the injection of an incredible amount of money into the system. For example, the case of Japan: The \$500 billion bailout is purely speculative and inflationary, and will not solve the Japanese problem.

So, if we want to have direct credit generation through national banks, even if the sums sound like a lot, they are only a tiny portion of the bubble which is created through leverage in the derivatives market. What we propose, is to put the power to generate credit and to regulate it back in the hands of the sovereign government, that the generation of new credit must be directly linked to physical production. And large-scale infrastructure projects are an ideal way of doing this.

So, national banking is supposed to provide credit for a science- and technology-driven expansion of the national economy. Each country participating in the Eurasian Land-Bridge, therefore, should adopt appropriate legislation, and should issue a certain fixed amount of new credit. This amount must be limited by the additional employment, and the additional production.

It starts with the national bank giving out low-interest, long-term loans. One channel for these loans is directly to the government, and the government then gives these loans to the different state entities and firms which participate in the production of the process, firms which produce the equipment, the material, and the labor directly employed in these projects. Through private banks, then, parts of this money can go to private and public subcontractors, and also as loans to modernize and expand these firms. This new credit then causes a chain reaction of increased production and employment.

For example, if you imagine the example of a new railroad being built, the financing for this comes in part from the national budget, and in part through credits from the national bank. Now, for example, 40% of this new credit goes to workers' wages; 50% is paid out for the purchase of different materials: rail, concrete, construction, machinery, and so forth; and then 10% is overhead costs of various kinds.

Now, this money creates a new cycle of production and employment. Part of the money goes as salary to the workers, part of it is spent for the raw materials, semi-finished products, and equipment, and part of it goes as profit to the firms. Now, through an improved tax system—and I think this is very important—and various regulatory means, the government must ensure that a large part of the profit is reinvested in the form of improvement in equipment and improved technology. When you do this, this immediately causes a new cycle of production.

The same is true in a slightly different way, in the form of increased employment of labor, because the workers take their wages and buy materials for consumption, families and households, for food, clothing, and other goods related to the living standard. This leads to an increase in production in the

agricultural sector and the consumer goods industry. So, there is a further increase in production and employment in the industries supplying these.

So the net effect of this, is that the credit created by the national bank, causes an increase in the total physical output of the economy. And, it can be proven, in every case of an industrial revolution, that the money coming to the state, in the form of tax revenue, is more than the initial credit given out by the national bank. Where does the additional wealth come from? Well, in the first approximation, by the use of non-utilized labor and non-utilized industrial capacities. On a world-wide scale, there are enormous such capacities. In the European Union alone, there are probably, at a minimum, 40 million unemployed. In the CIS countries, there are millions and millions of unemployed. In the so-called Third World, there are not even usable statistics, because the situation is so bad. In Mexico, there is 50% unemployment. So, by channelling credit to use this labor and to fully use existing capacities, to create new capacities, and to modernize existing ones, you create a chain reaction of production and productivity.

It is, however, important that in each cycle of production the best technological improvement be used. In this way, one raises permanently the level of technology in the production process, and increases the productivity of labor. Because of the dramatic growth in the demand for high-technology capital goods, which is created by these large-scale infrastructure investments, this also accelerates the rate under which scientific and technological progress can be injected into the economy. So the moment this is started, all of these effects start to occur. So, in a certain sense, this costs nothing, because the wealth created, which flows back to the state in the form of tax revenues, is the so-called payback for the initial credit.

Now, this should be done, both in terms of the so-called hard infrastructure, meaning these kinds of corridors, but also in terms of so-called soft infrastructure, meaning health, education, and other improvements of the labor force.

The Lautenbach Plan

Now, every word I have said so far, is obviously completely rejected by the proponents of the free-market economy. But, I want to point to the disastrous consequences, if such an approach is not taken. In particular, I want to refer to the economic policy debate in Germany at the beginning of the 1930s. I do not make a comparison to the 1930s because I say that this crisis is like that of the '30s; it is quite different. But, I raise it, because it is connected to the question of what to do under conditions of a depression and a financial crisis.

Recently, in 1991, the transcript of a secret conference of the Friedrich List Society in 1931, was published. The issue was how to boost the economy under conditions of a world economic crisis. Among the participants in this conference was the president of the Reichsbank, Dr. Luther, and 30 leading economists and bankers.

And, a person who is not very well known, but deserves

to be better known, Dr. Wilhelm Lautenbach, wrote a memorandum for this conference, the title of which was "The Possibilities of Boosting Economic Activities by Means of Investment and Expansion of Credit," in which he said, "The natural course for overcoming an economic and financial emergency is not to limit economic activity, but to increase it."

He pointed out that there are two different kinds of emergency situations. One, is war, earthquakes, other national catastrophes. And then there's a second type of crisis, which is economic and international, emergencies with international dimensions.

In such situations, it would be clear that more should be produced. But, if you only follow the laws of the market, this is not possible, because, in the second case, of a collapse of the financial system, you have a paradoxical situation, where, despite the fact that production already is collapsing, the demand is less than the supply. And this then leads to a tendency to decrease production even more.

If the government then adopts a program of deflation, it will tend to cut the deficit by cutting the state's expenditures, cutting prices and wages, restricting credit, and so forth and so on.

Lautenbach says that it is impossible to reduce taxes under these conditions, because the tax base is already reduced. And all such deflationary measures produce new and large losses of capital for the individual entrepreneur in commerce and industry. It makes them uncompetitive and insolvent, and it causes a reduction of production, and layoffs. It also leads to a deterioration of the banks.

Now, it is exactly this wrong approach which is presently taken by Maastricht, by the European Union, by the IMF, by the whole effort to package and solve this crisis, and not only in Southeast Asia, but in Russia, everywhere. This wrong idea.

The reduction of public expenditures is doubly counter-productive, since the public contracts and mass purchasing powers are further reduced. It leads to a collapse of production, and an increase of unemployment. And it is a downward spiral, which becomes worse and worse, and there is no bottom.

Therefore, Lautenbach says that the deflationary policy will inevitably lead to a complete economic and political catastrophe. But there is a paradox, because in a depression, you have unused productive capacities and unemployed labor. And therefore, the problem is very simple to solve: The state must intervene, and create new national economic demand. The only precondition is that it must be something necessary to the economy, which represents an increase in value, and it must be something which would have been done anyway, if the crisis had not existed.

Now, Lautenbach says that since the long-term capital is available neither from foreign markets nor from the domestic market, how can you finance it, if the capital markets simply do not give you the ability to do this?

Well, then it has to occur through a national bank, because liquidity is just a technical question. It's just an organizational issue: Liquidity immediately exists, if it is backed up by the authority of the state. And again, these projects are not inflationary, because they represent real economic capital formation. They create real economic value. And, because they have a productive multiplier effect, the rate of production is growing at a higher rate than the rate of credit expansion.

So basically, by means of such an investment in credit policy, the disposition of supply and demand on the domestic market will be increased, and the total production, once again, has a direction and a goal. Lautenbach says, "If we neglect to undertake such a policy, we will inevitably be heading in the direction of continuing economic disintegration, and a complete disruption of our national economy, and come into a condition where, in order to avoid a catastrophe, one will be compelled to undertake a strong increase of new, short-term public debt, but that will then only be for consumptive purposes, while today we have the instruments, the means for utilizing this credit for productive tasks."

So, obviously, had the Lautenbach Plan been implemented, the economic conditions which enabled the Nazis to come to power two years later, would have been eliminated. I only want to make this historical reference, to point to the fact that such economic decisions can have *catastrophic* consequences.

The moral, cultural issue

I now want to add one other consideration, and that is the moral aspect of work and unemployment. The Eurasian corridor, which will develop the interior regions of China, is a perfect way to absorb unskilled labor and marginally employed people. Now, it would work best if, in these projects, there were skilled cadres who could serve as an example for the unskilled workers. The cadres should not be political people, but they should be skilled engineers, skilled workers, and, in working on the project, uplift the level of skill of the not-so-skilled.

Jiang Zemin said, at the 15th Party Congress, that by the middle of the next century, all of China will be economically and culturally advanced. . . . I want to focus on the question of what is work for the individual person, because it not only creates the material conditions of life, it is also the way of a continuous advancement of scientific and technological progress.

But, there is an even more important element to it: It is the way for the elevation of the cultural and moral level of society. Creative discovery, applied in the form of work, is one of the characteristics which distinguishes man from the animal. And, work, in this way, has a specific ethical-moral value of its own. There is such a thing as the dignity of work, which becomes obvious when you look at the sufferings the unemployed go through.

One of the crimes of the so-called Manchester capitalism,

was to treat man on the same level as the whole complex of material means of production. But, when it is understood that *man* is the center of the economy, then work, especially skilled work, also gives man fulfillment as a human being. One can even say that work and industriousness enable man to become *more* of a human being, in the following way.

A nation such as China, but also others, represents the great historical and social incarnation of the work of all previous generations which give identity to a person. We just had a beautiful concert in Washington of a German boys' choir, which is 800 years old.¹ This choir's singing is excellent, and it is not only the excellence of that particular group, but of all the generations of boys learning the techniques of singing, over 800 years. So, when one of these boys says, "I represent a choir of 800 years," that is his identity.

In the same way, many Chinese persons say, "I represent 5,000 years of culture." So, man combines the deepest human identity with being a member of a nation. So, when man works, he not only works for himself, but he also increases the common good, together with his compatriots. And his work serves to add to the heritage of his nation, and the whole human family.

So man has two inheritances: one, is the inheritance of the resources of nature, and the second one is the accumulated work of generations and generations, in the form of scientific and technological progress.

Now, in this sense, work is also a human right. Man must work, out of regard for his family, his society, and the community and the nation he belongs to. He is the heir of all previous generations, but also, he contributes to building the future. All of this means a moral obligation to work, and therefore, the state has an obligation to provide this work, because unemployment is a great evil, from this standpoint.

I have stated, at many public conferences, that from this perspective, China has done *more* for human rights, than any other country in the world, in the last years: by eliminating poverty, by providing work, by uplifting larger sections of the population.

Now, because we are not only talking about one country, China, but we are talking about a world crisis right now, there must be international collaboration, necessary treaties and agreements, to provide this. But, while respecting the absolute national sovereignty of each participating country, human work is a fundamental right of *all* human beings, and therefore, these treaties must give similar rights to all who work, so that the living standard of all of mankind is uplifted, and that the exact opposite of what is happening now, can be accomplished. Right now, the gap between rich and poor is becoming wider and wider, and through this policy, we have to make sure that the difference becomes less and less.

From the standpoint of human history, I think we are at a

1. See Dennis Speed, "St. Thomas Choir Stuns Washington with Beauty of Music," *EIR*, Feb. 20, 1998, p. 26.

very crucial point, where, on the one side, we could plunge into a Dark Age and chaos. But, we could also get rid of what we regard as the biggest evil, namely, oligarchism.

One cannot overcome oligarchism through class struggle. I think the case of the Soviet Union demonstrates that. I propose that oligarchism is overcome through education. And, I want to end by telling you the example of the person who, in my view, invented the best education system in the world: Wilhelm von Humboldt. He was one of the pillars of the German Classical period of about 200 years ago, and he was a close collaborator of Friedrich Schiller, after whom the Schiller Institute is named.

Wilhelm von Humboldt said that the aim of education is not practical skills, but moral beauty of character; that the outcome of education must be a beautiful character. And, also, such a person should be a state citizen, participating in the common good. Humboldt said that in order to accomplish that, there are certain subjects of learning more suited to accomplish this, than others.

The most important, is the mastering of your own language, in its highest form, which means to study the great poetry and literature of your own language, because that is where metaphor is created, where new ideas, where beautiful visions are expressed. In China, this is very easy, because not only do you have a very rich philosophical tradition, but also a tradition of beautiful poetry and literature.

Secondly, each child must learn universal history, because only if you study the work and contributions of all the generations up to this point, do you have a noble desire to make your life so rich that you contribute something to the future generations.

Also, each child must study the crucial scientific and cultural steps of advancement of all of human history. That does not mean that you have to learn all the footnotes of all academics, but the crucial, qualitative advancements.

Then, naturally, the study of Classical music is very important. In a beautiful writing by Confucius, he elaborates what the effect of bad music is on the state, and how good music elevates the people. From a Confucian perspective, the United States is in very bad shape!

The pupil must also learn geography, a foreign language, preferably an ancient foreign language. If all of this is given to each child, then they have a good chance of becoming what Schiller calls a beautiful soul. And, Schiller defines the concept of a beautiful soul, that this is a person who is a genius.

The aim of such an education process, therefore, is to educate millions and millions, and, eventually, billions of geniuses. I would suggest that, apart from what was said before, the two most crucial things which I think China has not yet totally focussed on, are national banking, and the production of geniuses in the interior region of China. In any case, we want to have this approach for the whole world; and if we have, then, soon, something like 5 billion or more geniuses: That is the end of oligarchism.