

## EIR Feature

# Paul Krugman's cargo-cult economics

by Lyndon H. LaRouche, Jr.

October 8, 1998

“Stop the world! I want to get off!” is the title which might have been borrowed for the quality of performance shown, during a recent set of Washington, D.C. conferences called by U.S. President Bill Clinton. An appropriate illustration of this characterization, was provided by the ironical posturings of France’s minister Dominique Strauss-Kahn, whose silly sentiments were matched for that occasion by an even sillier MIT economist, Paul Krugman.

Under the headline “Etats-Unis et Japon: les géants paralysés,” *Le Figaro’s* Washington, D.C. correspondent Jean-Pierre Robin wrote, in part, in the Oct. 7 edition:

“ . . . La proposition du ministre de Finances nippon, Kiichi Miyazawa, de débloquer 30 milliards de dollars en faveur de ses voisins asiatiques— dont le moitié sous forme de crédits commerciaux pour les exportations— était accueillie avec ironie, le professeur d’économie au MIT, Paul Krugman, a dit. . . . *‘Il est étonnant que le Japon présente un programme à 30 milliards de dollars pour l’Asie alors qu’il ne peut régler ses propres problèmes économiques et financiers.’ . . .*”

[“ . . . The proposal of the Japanese Finance Minister, Kiichi Miyazawa, to release \$30 billion on behalf of her Asian neighbors— of which half would be in the form of commercial credits for exports— was received with irony, said MIT professor of economics Paul Krugman. . . . *‘It is astonishing that Japan is presenting a program of \$30 billion for Asia, when she cannot settle her own economic and financial problems.’ . . .*”]

That *Le Figaro* comment on Japan, like the entirety of the published item within



*Japanese Finance Minister Kiichi Miyazawa's (left) proposal to invest \$30 billion in the development of Japan's Asian neighbors, has created an uproar among such kookish "cargo cultists" as MIT's Professor Krugman. As for President Clinton, his failure of nerve, in the face of the new, more critical phase of the worldwide economic and financial crisis, creates the danger of something like a financial "Super-Nova."*

which that quotation appears, implies that Krugman, like *Le Figaro's* other source for that day, Dominique Strauss-Kahn, had departed the real world, and is currently vacationing in some Cloud-Cuckoo resort-area. Strauss-Kahn's choice of fantasy-land, is called the "Euro," a magical place of doubtful existence, where it is supposed that the bottomless debts of such enterprises as France's *Crédit Lyonnais* will be paid by German taxpayers, for an eternity yet to come. Krugman's choice of vacation spot is addressed below.

Immediately prior to, and during the Washington conferences, the weakness of will shown by President Clinton, under pressure from not only the leading fools of Britain and the Commonwealth, but also the French and German victims of the Euro fantasy, had turned a promising U.S.A. opportunity into the immediate, global disaster which has followed. Apparently, it did not occur to either Krugman or Strauss-Kahn, to look for a causal connection between, on the one side, the pattern of foolish behavior of France and others, in these Washington proceedings, and, on the other side, during the same period, the upward zooming flight of Japan's Yen (**Figure 1**).

It is consistent with the quality of France's unfortunate contributions to the Washington proceedings, that the world's financial situation following those Washington conferences, is far worse than is suggested merely by the presently ongoing, reversed-leverage effects of the upward-zooming Yen. As a result of the combined failures, of the Clinton Administration and European G-7 members, to face that reality which had been presented, during the interval from between the Septem-

ber 23 outbreak of the crisis of the Long-Term Capital Management syndicate, through the follies of the subsequent Washington conferences, the world as a whole has been pushed into a new, qualitatively more critical phase of the ongoing, global plunge into something which must appear to most of the world's leading bankers as a maëlstrom of reversed financial leverage. For those who can see a bit further ahead, it were better described as an oncoming financial "Super-Nova."

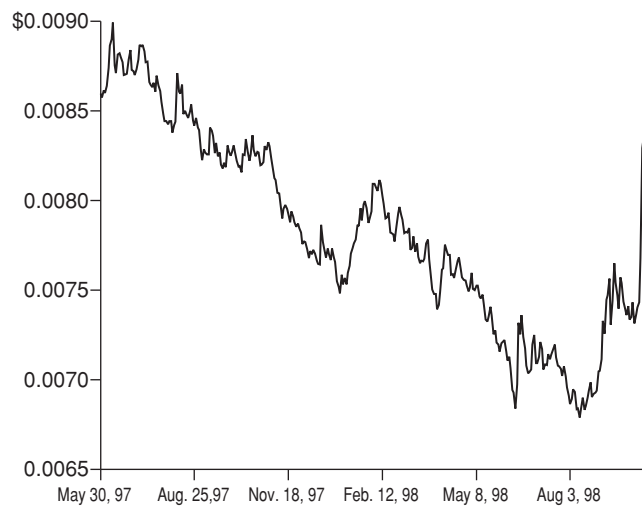
At the moment I write this: if that explosive charge, of as much as approximately \$150 trillions of derivatives and related paper, is not shifting already into a reversed financial-leverage kind of global Super-Nova, it is touching the brink of such a new phase-shift. Whichever present alternative proves to be the case, the mad pursuit of cash at any price, that "financial bloodbath" which is now controlling the global financial and monetary system, is the explosion of a detonator, whose sequel will be a vastly more devastating implosion to follow.

Any further "crisis management" effort by the U.S. and the governments of western Europe, in their efforts to bail out any large part of the estimated \$150 trillions of derivatives and related paper, will crush any assets mustered for bail-out, or related purposes, under pressures of reversed leverage averaging as high as in the range between 200 and 300 to 1. The present cashing-in does not relieve the pressure on the system as a whole; the margin of write-down of cashed-in financial assets, merely intensifies the pressure of reversed

FIGURE 1

**Japanese yen rises dramatically in wake of financial meetings in Washington, Oct. 5-9, 1998**

(U.S. dollars per yen)



leverage. This prepares the way for the next, new phase downshift, the next wave of crises to come during the weeks just ahead.

In this present circumstance, attempts to “stay the course of reform” by methods of “crisis management,” would ensure that the world financial system, in any of the forms we have known it during all of this century, will soon simply cease to exist. What will occur during the temporary phase which comes next, after the October 12-15 interval of transition, no one knows with certainty, and almost no one could imagine. What is certain, is that all that assortment of “crisis-management” tinkering, as proposed by Tony Blair, from France, from circles around former Chancellor Helmut Schmidt in Germany, and Clinton, will accomplish nothing, but to worsen the situation much more than had they made no such efforts; already, the effect of such tinkering has been to divert discussion of real solutions from the agenda.

We have entered a phase of disintegration of the present global financial and monetary system, in which the process of collapse is immediately nothing but non-linear. That is to say, that we have entered a process characterized not by calculable trends, but by an accelerating succession of phase-down-shifts, producing statistical results of a non-linear type which, as the recent crisis of Long-Term Capital Management illustrates, no ordinary professional mathematician is competent to forecast. As long as the world attempts to set economic policies within the terms of the existing, doomed global financial and monetary system, those nations attempting such crisis-management, are, as the cases of Korea and Indonesia

illustrate the point most dramatically, the regions of the world doomed to suffer the worst.

That larger picture of the weeks ahead, while not our immediate subject in this report, must be described as we have done here, but is summarized so, only to identify the context within which the topic of this report is situated. That said, we now resume our review of the practical policy implications of Krugman’s quoted remarks.

Had Krugman been paying attention to reality, he would have given serious thought to key statements I had just previously published, on the subject of the crucial role of new export policies in any future recovery of Japan’s derivatives-wracked financial system. Exemplary, is my September 21 report on the topic of Japan’s use of export credit [“Save Japan, Not Banks!” *Executive Intelligence Review*, Oct. 2, 1998].

There was no excuse for Krugman’s failing to consider my report. Nowadays, since the time that many leading bankers and other professionals have come, however reluctantly, to recognize what they regard as my uncanny success as a long-range forecaster, no respectable leading economists, or relevant others, overlook what I publish currently on subject-matters of that type. Virtually every competent economist and many leading political figures from all leading nations around the world — whether in the Americas, all of East and Southeast Asia, Russia, western Europe, and elsewhere, seriously study my reports, either in the original, or through summaries, even if they are often reluctant, usually for factitious reasons, to identify me by name in that connection. Since the unique confirmation of what is called my “Ninth Forecast,” an economist who does not study at least the essential content of my reports, at least privately, is considered a quack or simply a reckless fool. If Krugman had been sober and serious at the moment *Le Figaro* interviewed him, he would have put my statement, Miyazawa’s statement, and the fact of the Yen movements together, and would have recognized what a careless fellow he, like Dominique Strauss-Kahn, had been, at least during the period of the recent Washington conferences.

To understand how “techno age” clockwork minds, such as Strauss-Kahn’s and Krugman’s, tick, consider the following illustration of that elementary principle of economic sanity which, according to *Le Figaro*’s report, they violated.

Somewhere, among the Pacific islands, we should be able to find at least one pair of greying senior Melanesian cultural anthropologists, shaking their heads in wonder at the primitive superstitions of such assorted folk as U.S. Federal Reserve Chairman Alan Greenspan, Krugman, and Strauss-Kahn. One can hear one such anthropologist saying to the other, “Would you believe it? These dumb French and American academics still believe in a ‘Cargo Cult!’”<sup>1</sup>

1. Nothing we write here is intended to support the myth of the “Cargo Cult,” at least not as the popular press has reported it. We point to the case of the hoaxster, Linda Tripp-like Margaret Mead’s notoriously fraudulent *Coming*

That anthropologist might point to the French socialists, for example, who wait for mysterious German ships to leave a cargo of money on the shores of the Seine. In the old days, there were those, in parts of Melanesia, who longed for the return of those ships which had delivered the war-time cargos of real U.S. manufactured goods to the island's shore. Compared to today's *Wall Street Journal* and other Mont Pelerin Society's loonies in general, any emphasis by Melanesian veterans of World War II's Pacific, upon the acquiring of useful goods, back then, reflected a commendable sense of economic reality, at least relative to the folly of economists such as Krugman today. We justly point the finger of ridicule at those, today's monetarist savages of Paris, Washington, and elsewhere, who are content to wish for cargos of that virtual IMF money, which is never actually delivered, but flashes on the screen of a handheld calculator, for but one wispy, Black-Scholes micro-second.

So, we must regard the economic professionalism of such Internet-Age "cargo-cultists," as we should the foolish bankers responsible for the Long-Term Capital Management disaster. So, we should regard Strauss-Kahn and Krugman. Unfortunately, the President's remarks at the recent Washington conferences were devoted largely to a litany from the domain of today's "Cargo Cult" economics.

---

## It's much safer in the lifeboats!

---

I had issued the immediately relevant warning just a short time before those conferences. I warned, that until such time as my specifications for a New Bretton Woods were adopted, the world must expect new, and unprecedented, successive forms of crisis, each to erupt around the world at a frequency of about every several weeks, until such time as the whole shebang comes down. I had warned: do not make the childish mistake of treating the present global crisis as similar to that of 1929-1931; I have warned, repeatedly, over years, that the most recent comparison to the presently ongoing "financial

---

*of Age in Somoa*, in which it appears that most of the Kenneth Starr-type content was either made up by Mead, or behavior of the type she was known to propagate, not only in Somoa. Mead, one-time wife of the British intelligence community's Gregory Bateson, went on from Somoa to become a full-fledged, witch's-staff wielding, cloak-and-groaning Dame of the British monarchy's Hospitaller Order. In addition to one lurching, failed effort to brain my wife a couple of decades back, she was an impassioned enemy of mine from around such New York City precincts as Columbia University and the American Museum of Natural History, from no later than the very early 1970s. Indeed, the latter institution might have been renamed "The American Museum of Unnatural History," in, so to speak, her memory. She typifies the propensity for sheer fabrication of evidence among the cultural anthropologists generally. This is the way in which the "cargo cult" came into the popularized anthropological literature from such sources. However, the fact remains, that the "Cargo Cult" has its devotees among those anthropologists who concocted the reports, and, also, does correspond to the way in which most of today's liberal and far-right economists, alike, think and behave, both in and out of government.

bloodbath," from any part of European history, is that so-called "New Dark Age," from the middle of the Fourteenth Century, which was triggered by the collapse of the Lombard banking system. So, it happened. Just several weeks after I had delivered that warning of such an immediate succession of phase-shifts in the ongoing crisis, a previously unprecedented form of reversed-financial-leverage chain-reaction erupted.

As a direct result of the catastrophic failures of the recent Washington conferences to heed that warning, a new, short-term situation has been created, which is even far more dangerous, even far more complex, than any of the problems considered on the agendas of the participants going into the sessions. The dismal collective performance by the participants in those conferences did much to set off the most recent wave of catastrophe. It is in that context, that the significance of *Le Figaro's* contemptibly foolish response to Minister Miyazawa's referenced remarks is located, and only in that context can the issues posed be understood.

The immediate cause for this sudden worsening of the situation is, that even after the September 23, 1998 crisis of the Long-Term Capital Management's gambling syndicate, President Clinton and the European G-7 members still defended, publicly, and axiomatically, those same policies which had brought the world's financial and monetary systems to the brink of doom. The President continued to claim a recent period of successful growth of the U.S. economy, for example, when no such growth has occurred. He insisted that the present "free trade" and "globalization" policies, the actual causes of the present catastrophe, are predominantly sound, a claim which is plainly false; he conceded only that some features of the current situation must be remedied, as either dangerous, or also sometimes also cruelly unfair to their obvious victims. In sum, he clung still to the posture of defending those disastrous, so-called "reform" policies which had been the actual cause for the presently accelerating, global financial collapse, those policies which had been shoved down the world's throat by the Berlin-pivoted four-power agreements among Thatcher, Mitterrand, Bush, and Gorbachev, during 1989-1991. Thus, the President promised a remedy, but delivered the disease.

Admittedly, during those conferences, the President blundered, and badly; but do not blame President Clinton for those other, related problems which he did not cause. He did not cause the present world crisis; he inherited it from his immediate predecessors. His failure is not merely that he included numerous blunders in his statements to those conferences. The relevant, ominous part of his recent performance, for which he, personally, is to blame, is that only the President of the U.S.A. was in the position to organize the kinds of concerted action needed, to save this planet from a kind of Hell worse than anything either the President, or most other leading circles of the world are prepared psychologically, so far, to recognize. His culpability does not lie so much in the fact

that he had, indeed, made numerous defective policy-utterances, and decisions, some of which were very bad. His fatal, or nearly fatal political blunder during the period of that conference, was his loss of nerve in a crucial situation, a situation not of his making, but a situation occurring "on his watch," occurring at a time when the commanding responsibility lay in his hands.

It should be sufficient for me to emphasize, that I have been among the first and foremost to concede, that Bill Clinton personally has many excuses for his loss of nerve at that, and earlier junctures, including some very big excuses. Who does not know the President's troubles these days? The point is: whatever Bill Clinton's excuses as a person might be, as President, no such excuses are allowed him. Troubles like that "go with today's Presidential territory."

I point out, that he is not in trouble because of Monica Lewinsky's bad Tripp, nor merely because of the sexual perversions of the world's dirtiest pornographer, Kenneth Starr, and Starr's financial backer Richard Mellon Scaife. Nor is he in trouble merely because of such high-ranking British authors of the "Get Clinton" operation as Lord William Rees-Mogg, Conrad Black, Rupert Murdoch, and the Anglophile, ever-kookish so-called "right-wing Zionist Lobby" of such predatory Elmer Gantry's as Pat Robertson, Jerry Falwell, et al. He is in trouble chiefly because governments which are

foreign enemies of the U.S., such as that of Israel's mass-murderous Prime Minister Netanyahu, and others, have savagely violated U.S. national security, and have worked subversively to set the President up for targeting by such accomplices deployed through the Federalist Society's, Starr's, and Newton "Benedict Arnold" Gingrich's flagrantly unconstitutional, sexually perverse, and implicitly treasonous attempts at an anti-American, parliamentary form of coup d'état against the U.S. Constitution itself. As Presidents John Quincy Adams and Abraham Lincoln would have forewarned Clinton, such troubles, including treasonous operations against him from very high-ranking places, go with the territory of being President in such extraordinary times as these. So much for the alleged patriotism of the Gingrich leadership in the Congress.

Granting the President that much: No amount of such troubles represent an excuse for a failure of command in the moment of opportunity confronting the President at that juncture. On this, I can speak with weighty, hard-earned, personal authority. The scope, extent, and duration of the politically motivated victimization I have suffered, and under which I have had to operate, for more than two decades, is far worse than anything President Clinton has had to tolerate up to this point. Lest there be any doubt of this, the President has no known enemy which was not already my enemy, and a thoroughly vicious one. Thus, I can say, with absolute fairness and certainty, that I would not have failed to meet the requirements of command under the kind of aversive circumstances to which he and his family and friends have been subjected. When one is in such a position of responsibility as his, no excuses for a failure of nerve in command are allowed, and I allow myself none, even in my present position. On specific account, for that failure, President Clinton, having chosen the office which carries such risks and responsibilities, has no one to blame but himself.

As the German saying goes, the important thing is the result. President Clinton's essential folly is as we have just said: as is not unusual for him, the fault lay chiefly in what he failed to do. Usually his follies are the result of his capitulation to influence from bad political advisors, those chiefly within the Democratic Party leadership, or, often, even his own immediate White House circles. As Clinton's error bears upon the discussion of Miyazawa's announced policy, Clinton's loss of nerve was expressed in such disguises as his renewed public genuflections to the heathen gods of the IMF, "free trade," and "globalization." The chief effect of the Washington conferences, therefore, is the sickening waves of dismay, and matching sense of desperation, which the President's non-performance, then, has spread around the world since.

For example, the relevant effect of the President's inclusion of "New Age" rant into the conference's proceedings, has sent a brutal signal to Russia, Japan, Malaysia, Indonesia, and others, suggesting that they not rely upon hopes for any decisive kind of helpful cooperation from the U.S.A. We must

# So, You Wish To Learn All About Economics?

by Lyndon H. LaRouche, Jr.

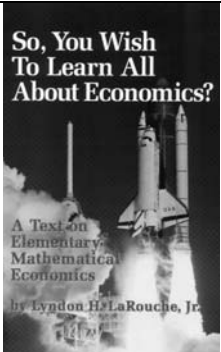
A text on elementary mathematical economics, by the world's leading economist. Find out why *EIR* was right, when everyone else was wrong.

Order from:

**Ben Franklin Booksellers, Inc.**  
P.O. Box 1707 Leesburg, VA 20177

**\$10** (703) 777-3661 Call toll free 1-800-453-4108  
fax (703) 777-8287

plus shipping (\$1.50 for first book, \$.50 for each additional book).  
Bulk rates available. Information on bulk rates and videotape available on request.



see that result of the President's failure, as these nations experience that failure, and we must take that fact as such into account. We should not view as unreasonable, or unexpected, those nations' reaction to his apparent commitment to continue the tragi-comical posture his administration presented during the Washington conferences.

Russia, for example, is faced with an existential crisis beyond anything President Clinton has been yet able even to imagine. A decent person does not say to a Russia which has been virtually destroyed by the "free trade" and "globalization" policies of reform which Clinton and Gore have continued from Bush's time: "Trust us; stay the course of reform." A decent person does not say to an Indonesia subjected to mass-genocidal, combined direct and chain-reaction effects of hedge-fund raids and IMF conditionalities, "Stay with the conditionalities; try to make them work." He does not say to Malaysia, "Please lie down and let us do to you what we have done to Indonesia, and, in the meantime, please be nice to mass-murderous financial pirates and drug legalizers such as George Soros and London's shamelessly open backing of agents of British influence such as Anwar Ibrahim."

There is a limit, beyond which such disgusting expression of moral indifference from Washington officials, must be rightly perceived as violating all sense of elementary moral decency, as an intolerable offense against any reasonable regard for the most elementary kinds of human rights. The President must bring himself to acknowledge, and accept the reality, that, given the extremity of the circumstances now facing them, nations will not be content to sit waiting to receive permission to continue to live; in such extremity, no mere threats can blackmail a nation into submission to the dubious whims of current Washington diplomacy. With what can you threaten a nation which your combined negligence and other abuse are already murdering? Who will not shrug in disgust, if the President were to say, "Don't you see? I had no option but to do it this way, because. . . . Please! You must grow up, and learn to be more patient."

If, for some weighty reason, you, as a responsible official, can not act for an urgent cause, at least admit the fact of your dereliction, honestly, *and, above all, publicly*. All decent statesmen have learned from Plato, as did U.S. Secretary of State John Quincy Adams, that strict, and open adherence to the interrelated causes of truth and justice, is the acid test of public morality.

It is urgent to see the reaction to such negligent behavior of our President, as the victims experience and see it. It is urgent, to portray the issues of justice involved, truthfully. It is important to recognize the difference between the moral authority of our republic's traditions, the traditions of Lincoln and Franklin Delano Roosevelt, and the contempt evoked by the characteristic immorality, now called, euphemistically, "liberalism," of recent decades' turns in U.S. foreign policy. We must take frankly into account, that contempt evoked by that sheer hypocrisy usually displayed, when U.S. diplomats

and others in powerful offices speak unctuously of "moral issues."

The President must rightly perceive Kenneth Starr as a pervert, the world's dirtiest pornographer. Therefore, when Starr and his fellow-travellers babble, like England's infamous Lord Jeffreys, of "moral issues," so, the President should also recognize, the same quality of perversion displayed, when U.S. diplomats prate self-righteously of "human rights," while they deny the right to existence of entire nations. The latter is a right which is often simply ignored, or even denied, whenever that right to truth and justice might conflict with the current, Ramsay MacDonald-like, "Third Way" line of Britain's virtually fascist Blair government. So, our diplomats and other officials, are rightly viewed, as customarily avoiding real-life issues of human rights, of even entire nations, whenever defending those rights might interfere, otherwise, with a policy rooted in those mere utopian delusions currently received doctrine in official Washington, D.C. The same immorality is exhibited in the pressures on the President to sign the 1996 "Welfare Reform," or by political pressures to push through the NAFTA slave-labor program for northern Mexico. Those latter abuses are rightly seen by the victims, as our government's cruel, and vastly hypocritically self-righteous disregard for the most elementary human rights of not only entire nations, but entire regions of this planet.

So, in Asia, Africa, and other places which are the chief continuing victims of such hypocritical U.S. diplomacy, including instances of the President's own negligence in some such matters, the plausible message read by many observers of the most recent Washington conferences, especially from among so-called developing nations, is: No competent leadership is to be expected from the U.S.A., or any nation of western Europe, at this time.<sup>2</sup>

Not only typical of this, but crucial in and of itself, is the Clinton Administration's foolish posture of public sympathy for that coup d'état which the British monarchy is mobilizing against the government of Malaysia. The disgusting, gratuitous diplomatic slaps at Prime Minister Mahathir from the Clinton Administration, are interpreted in most of Asia: "Ex-

---

2. The very term "emerging markets" bespeaks the racist quality of immorality of each and every U.S., or other institution's official who uses that term. In general, the despicable connotations of that usage should be self-evident. The shift, to this term, away from "developing nations," is a correlative of the present "New Age" fad of "globalization." The rabid one-world ideologue prefers not to use any term which might remind him of discouraged notions such as "sovereignty" and "nationhood." He prefers a term more consistent with John Locke's defense of chattel slavery, "property." "You are my property: my market." "You are not a nation; therefore you have no sovereignty. A market has no sovereignty. You are a subject of 'the laws of the market according to the heathen god of John Locke.'" To be consistent, therefore, "Honesty in marketing" should require that all who use the term "emerging markets" should wear Ku Klux Klan regalia; Prince Philip's Kleagle would advise us, and, no doubt Kenneth Starr too, that the sheet and pillow-case should be, like the costumes of English fashion models, transparent.

pect nothing good from the U.S. for the foreseeable period immediately ahead.” This sort of U.S. diplomacy is especially disgusting, and implicitly racist, when our State Department acts, as it has done so often in respect to African butcher Museveni, as it is doing now to Malaysia, as a shameless towel-boy for the British monarchy’s current Commonwealth policy: as “an American cockboat in the wake of the British man o’ war.”

In short, in Russia and various capitals in Asia, the message from the U.S.A. and western Europe, is being read as: “Our ship is sinking; the captain has capitulated to his political advisors: Take to the lifeboats, and save yourselves, if you still can!” In this setting, while many of the world’s most famous names in banking are scampering about, desperately searching for piggy-banks to rob for cash, Russia, China, Japan, Malaysia, and, very soon, many others, too, become increasingly restive at the boundless immorality of policies emanating from not only the IMF Mafia, but from the governments in Washington and western Europe. They are reacting accordingly; that reaction is becoming increasing visible, and increasingly substantial in both visibility and effects.

Some argue against this view: “But, the President is well-meaning.” I agree with that opinion; but, I reply, “Mere sincerity was never proof of either accuracy, or of sanity.” Washington’s currently prevalent insanity must be understood, like the symptomatic sillinesses of Strauss-Kahn and Krugman, in light of the massive evidence proving, that, up to this moment, the United States and western Europe have their heads stuck into the lunacy of a “Third Way” fantasy-world. In official Washington, not only Clinton’s enemies, such as Gingrich, but some among the President’s most influential political advisors, are like the poem’s Miniver Cheevy; they prefer to propitiate a past which either no longer exists, or never did, than to face the present reality of the world which does.

### **On President Clinton himself**

Speaking personally, I am more hopeful, but not blindly optimistic when it comes to certain crucial weaknesses in the President’s patterns of behavior. It is still possible that President Clinton will turn around, in time. It may take the shocks of one or two more terrible crises to turn him around. I will continue to do the utmost to bring about the urgently needed change in his outlook. But, until he abandons the specific kinds of influence and thinking which prompted him to sign the 1996 Welfare Reform bill, and to waste the kind of precious opportunity which the recent Washington conferences offered him, I will not suggest to anyone that they adopt a policy of blind faith in the President’s ability to come to his senses in time. There are strong reasons to believe, that, left to his own resources, he would not be able to stay the course for any of the historically urgent actions which fall upon his shoulders now. Indeed, the better we understand the Presi-

dent’s personal shortcomings on this account, the more likely we shall be able to help him overcome them.

Admittedly, there is some good news around Washington, even these days. Despite the latest flaps from Washington, the relations between China and the Clinton Presidency continue to be excellent. Clinton’s attitude toward the efforts of the new government in Russia has not been unfriendly. The Clinton White House has continued serious efforts to deal fairly, if frankly with Japan’s government. Clinton has amiable personal qualities, without doubt.<sup>3</sup> There is other good news along similar lines, but —

In light of the importance of the U.S. Presidency for the world as a whole right now, the key, global political problem to be remedied, is the President’s politically fatal propensity for propitiating bad advisors, such as those who persuaded him, in 1996, not to veto the “Welfare Reform” legislation. The President’s most significant failings have been less his incidental mistakes, than the fact that, so far, despite good moments, such as his appearance before the Starr chamber proceedings, President Clinton has failed to show the kind of consistently effective leadership needed to avert the preventable, chaotic disintegration of the world’s financial and monetary system. In respect to the world’s financial and related crises, the President is, apparently, so busy searching for a convenient, apparently safe opportunity to be handed to him before dealing with this crisis, that he overlooks the fact that in a crisis of the present type, the only opportunity he, like any other real leader, will find, is the one he makes for himself.

I do not copy exactly the argument, or tone of criticism recently published by Clinton’s old friend Robert Reich. With qualification, I am more optimistic than Reich appears to be; besides, presently, we have no other choice but Clinton; all the visible, legally available, potential opportunities for a successor, prior to 2001, would make the doom of the United States absolutely certain.

Instead of Reich’s choice of terms, I would rather say, therefore, that President Clinton’s “crisis management” fumbling, has already wasted too many precious opportunities on conciliating not only his variously exposed deviant-Democrat and other defective political advisors, but also his enemies from the circles of House Speaker Newt Gingrich and of London’s “new Ramsay MacDonald,” Tony Blair. His temporizing has fostered a leadership vacuum which neither Russia nor relevant key nations of Asia will continue to tolerate, simply because they can not continue so. The latter simply can not tolerate such excuses by the President, as his imploring them to trust him and be patient. It is his capitulations to certain among his political advisors, as the almost fatal blun-

---

3. As for charges of financial corruption, or so-called “sexual immorality:” What might be hidden, or not really so well hidden, in the closets of such Clinton enemies as such an obvious sexual pervert as mass-pornographer Kenneth Starr, or in the affairs of Newt Gingrich?

der of supporting the 1996 Welfare Reform, best illustrates, which have created that kind of leadership vacuum, which, in turn, has now, in the context of the recent Washington conferences, set off a qualitatively new series of crises, far more menacing than anything which the White House has appeared to address thus far.

The balanced estimate of the President's personal political situation, which I would suggest as a restatement of Robert Reich's published comment, is my observation, that the President is rapidly running out of the options he too frequently wastes. I see this pattern as reflecting a dependency upon certain advisors linked to a lack of deep-rooted personal confidence. His "instincts" are often good, but he lacks the confidence to stand up consistently to pressure from advisors, even in defense of his certainty that he is morally right. By the pattern shown in his public actions, he seems to be saying, "That may be true, but I do not have the right, as President, to believe that. I must bend to the opinion of my political advisors." That is the picture of the man as candidate and chief executive of both Arkansas and the U.S. government since his second campaign for reelection as Governor.

As a result of this manifest flaw, we have the following exemplary, dismal results. Since the President's refusal to slap down Israel's bestial Prime Minister Netanyahu, like his senselessly opportunistic, and disgusting effort to propitiate Clinton's own "Zionist Lobby" assailants, by bombing Sudan, like his disgraceful capitulation to pressures from advisors on the 1996 Welfare Reform bill, and his temporizing during the period of the recent Washington conferences, the President's streak of recurring weaknesses has produced a menacing loss of not only his own, but also the U.S. Presidency's strategic credibility. His terrible performance during the recent conferences, has been perceived as such.

I would ask Reich to modify his view of Bill Clinton. This President, and his nation, too, desperately require that this man be supplied new advisors, who will fend off ruthlessly the kind of bad political advice leading to such tragic results as the non-veto of the 1996 Welfare Reform bill, and will supply him the basis for confidence needed to face up to the crucial decisions ahead of him.

In the wake of those latter conferences, that perception of his temporizing, has set into motion ominous developments which might have been controlled had the President, at least, told the straight truth publicly, rather than resorting to that mish-mash of evasive pragmatism and matching dissimulation, which tends to destroy his image of credibility. As a result of this, the relatively unprejudiced majority of the world's relevant observers seems not to dislike him, but, rather, sees him, with a sigh of regret, as "unfortunately, no FDR." Unless the influence around him is changed in composition, "Unfortunately, no FDR," will become the likely future title of ex-President Clinton's biography; it could also prove to be the epitaph of the United States itself.

## What Krugman could not understand

Japan's actions are to be seen in light of that kind of global strategic situation, which the President's temporizing has fostered. So are the changing colors of reactions shown from Prime Minister Primakov's Russia. However, one must not leap to the assumption that these reactions from Russia and Asian nations, are concerted, conspiratorial actions. The tendency toward apparent convergence reflects chiefly the common, if separate experience of these nations, an experience presented by a persisting pattern of the President's continuing refusal to supply the needed qualities of leadership in respect to a wide assortment of nations, constituencies, and situations. Nor, must it be assumed, that the fact that the Clinton administration is often at cross-purposes with nations such as Russia, Japan, Malaysia, and so on, means that those nations' relations with the Clinton administration are — so far — motivated by unfriendliness toward Clinton himself.

If that sounds like a complicated situation, perhaps the situation itself is complicated. In real life, the more important a situation is, the more complicated it is likely to become. However, "complicated" does not mean "confused," or "incomprehensible." The leading features of the new situation become intrinsically comprehensible as soon as a few relevant key facts are taken into account.

The foregoing background considerations, respecting the President's handling of the recent conferences, and his personal role in his administration more generally, define that immediate, present situation, symptomized by the referenced, silly behavior of Strauss-Kahn and Krugman. Start with the Miyazawa proposal itself, and then go on to that more general situation which the case of Japan aptly illustrates.

On the subject of Krugman and Strauss-Kahn: As the saying in the boardroom goes, "We may hope for their improvement;" but, so far, that pair have shown themselves typical of those politicians and economists who are apparently incapable of understanding even the most elementary principle of modern economy. The most relevant of the essential principles which neither has recognized, so far, is that all modern economy centers around an interaction between a fictitious economy, the money system, and a real economy, the latter the population's relationship to non-monetary, physical reality. To understand any economy, put aside all today's popular psychobabble about "information theory" and "monetary theory;" start with the physical economy as such. From that latter standpoint, what Miyazawa said, appears, at its conjecturable worst, to be very sensible, and what Krugman is quoted as saying to *Le Figaro* on the subject is silly sophistry worthy of a pretentious barroom loud-mouth.

When it comes to Japan, Americans, such as Krugman, ought to have the decency to remember, that it was the forces commanded by General Douglas MacArthur, which defeated Japan in World War II, with no credit for victory actually earned by either President Harry Truman or the



atomic bombs which perennial war-criminal Churchill's and Bertrand Russell's Britain demanded be dropped. The relevance of this to Krugman's and *Le Figaro's* cited folly, is direct, and crucial.

At the time the fission bombs were dropped on Hiroshima and Nagasaki, not only was Japan already defeated, but Emperor Hirohito, working through the then-Monsignor Montini's<sup>4</sup> Vatican Office of Extraordinary Affairs, and in cooperation with O.S.S.'s Max Corvo, had already delivered President Franklin Roosevelt's U.S.A. essentially the same terms of surrender signed, months later, after the bombs had been dropped.<sup>5</sup>

---

4. Later Pope Paul VI.

5. Truman's travesty in the case of the Hiroshima nuclear bombing, was mint Churchill. Several precedents from perennial war-criminal Churchill's and related British intelligence dossiers are relevant illustration of the point. When the German resistance acted to overthrow Adolf Hitler in Summer 1944, the British intervened to save Hitler, arguing that Churchill's Britain preferred to have Hitler in power nearly a full year of war longer, than to negotiate peace with German generals in July 1944. The family and friends of every U.S. soldier (for example) who died in that war, after July 1944, can thank Winston Churchill for that. British documents have revealed, more recently, a Churchill war-plan, called "Operation Unthinkable," for a "preventive war against the Soviet Union," to occur in June 1945, in which a number of captured Wehrmacht divisions would be used as Anglo-American auxiliaries. This little beauty Churchill cooked up shortly after Franklin Roosevelt's untimely death. The Churchill gang's pressure on Truman, to drop the nuclear bombs on an already defeated Japan, is typical of Churchill's war-criminality. The same war-criminality is continued, long after Churchill's death, today, from Prime Minister Tony Blair's London, in connection with a plot to unleash a probable nuclear war in Bibi Netanyahu's Middle East cockpit, and to use that as part of London's plan to topple Russia's Primakov government, and bring a London-picked, modern "General Kornilov" to power in Moscow. Indeed, harking back to Churchill's days once more, that was the way in which London orchestrated the parliamentary coup d'état against von Schleicher, to bring von Papen's asset, Adolf Hitler, to power in 1933 (at a time, incidentally, when Churchill happened to be out of power and financially strapped). Like the competition between von Schleicher and Hitler, under a fading President Hindenburg then, we have the equivalent in the case of President Yeltsin, the Primakov government, and a "Kornilov" alternative in Moscow today. Or, we might also refer to Russia events of Summer 1917, when the Bolshevik move toward power was set into motion, however unintentionally, as a by-product of a London-directed attempt at a Churchill-in-power-backed attempt at orchestrating a succession from Kerensky to Kornilov. From Shelburne and Bentham, through Palmerston and Churchill, to Tony Blair's government today, that is the habitual British imperial way of thinking about the conduct of diplomacy. The British motive for the dropping of the nuclear bombs on Japan, was, in part, to seize the laurels of victory from a General MacArthur which London and its U.S. cronies hated as they hated Presidents Kennedy and Charles de Gaulle later, and as agent of British influence Henry Kissinger has hated the U.S. and Franklin Roosevelt to last report. The deeper purpose for the Hiroshima bombing was identical to that behind Churchill's war-plan for June 1945, "Operation Unthinkable;" the purpose was to create a nuclear balance of power between Washington and Moscow, which Britain intended to manage as part of a long-range scheme to set up a process of "globalization" which would lead directly into the scheme of world government which the author of nuclear warfare, Bertrand Russell, intended to effect through his personal orchestration of the relevant Einstein letter to President Roosevelt.

The final, decisive military blow to World War II Japan, even before those bombings of Hiroshima and Nagasaki, was the effective U.S. military blockade of the islands of Japan, shutting off that inflow of raw materials and other goods, the margin upon which the continued physical-economic existence, and war-fighting capability, of Japan depended absolutely. That same strategic vulnerability is key to Japan's economy still today, even more so than fifty-odd years ago. Apparently, Krugman understands nothing of the same fundamental issue of today's Japan's economic security, and related matters of export-credits policies. For those who may have overlooked my earlier published statement on these matters, I summarize the case here.

As I pointed out in my referenced report: Into the middle of the 1970s, post-war Japan had an essentially sound economic policy. Indeed, tallying the score up to that time, Japan's economic policy had been one of the world's best, matched only by the pre-mid-1960s U.S.A. and Germany, with de Gaulle's Fifth Republic coming up from behind. Japan's growing economic strength lay in the export of heavy engineering and in high-technology capital goods, the latter especially in manufacturing. Beginning the 1970s, under heavy pressure from Kissinger and Brzezinski, Japan was blackmailed into the less appropriate resorts of peddling cars and dealing in what has turned out to be some very bad financial paper. Similarly, it should also be recalled, that after Nippon Steel's Honorable Shigeo Nagano had founded an Asia-Pacific association with Australia and others, the U.S. and British silly side of the discussions, insisted that the agenda specify that all nation-building impulses for Southeast Asia be suppressed, in favor of concentration on cheap-labor projects such as tourism.<sup>6</sup>

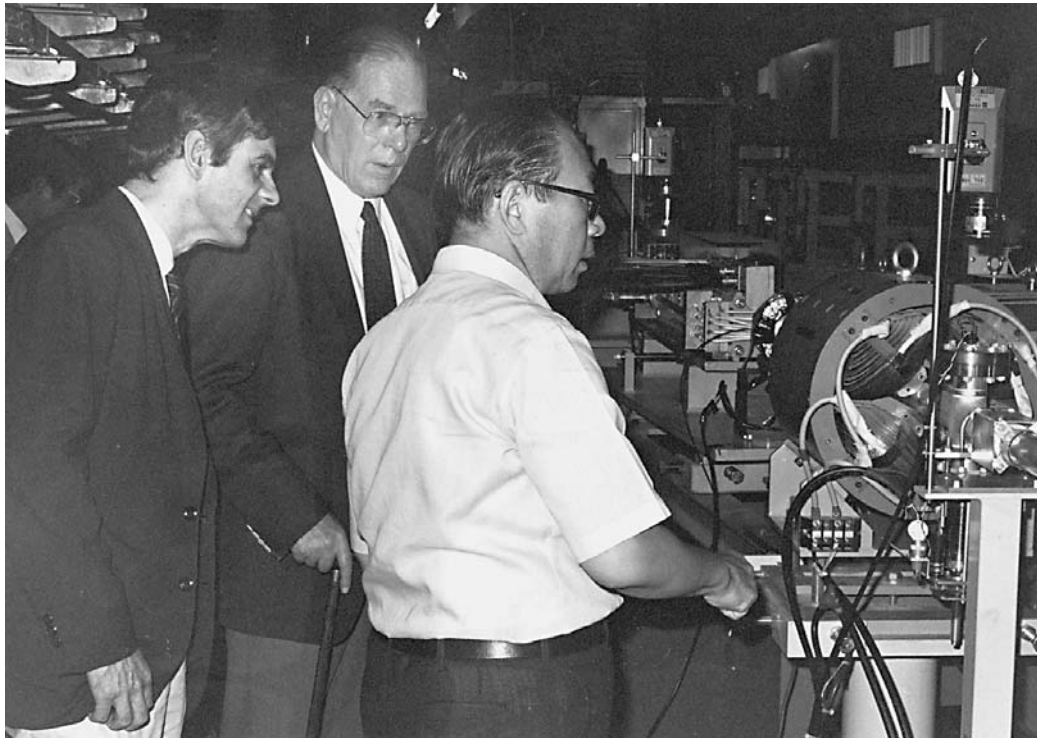
Later, from the time of the Plaza Accords, Japan's banking system was ordered to become insane; the pressures for lunacy, from London and Wall Street, were stepped up mightily with the onrush of the derivatives swindle, beginning late 1989.

Now, Japan's financial system is collapsing under the world's most dangerous accumulation of the worthless financial paper which Eddie George's London and Alan Greenspan's Wall Street advised it to generate. As I have pointed out, repeatedly, the kind of options for post-1971 Japan which have been prescribed by Kissinger, Brzezinski, Volcker, et al., are all bankrupt—hopelessly bankrupt. That latter, failed set of options, which silly Strauss-Kahn and foolish Krugman defend, can not be saved, and no effort should be wasted on trying to save them.

Yet, underneath, despite that worthless pile of "Yuppie-

---

6. See Lyndon H. LaRouche, Jr., "A Fifty-Year Development Policy for the Indian-Pacific Oceans Basin," *EIR Special Report*, 1983. See also, "The Industrialization of India: From Backwardness to Industrial Power in Forty Years," *EIR Special Report*, February 1980.



*Lyndon LaRouche (center) during a visit to the high-energy physics laboratory in Tsukuba City, Japan, in September 1984. In order to survive, Japan needs to export heavy engineering and high-technology capital goods. That means scrapping the failed, lunatic “post-industrial,” “New Age,” “globalization” model.*

dom’s” fictitious paper, Japan’s industrial economy remains potentially a leader in today’s world economy, unlike the France which such de Gaulle-haters as London’s François Mitterrand have ruined. To round out that picture, Japan’s industrial and related real economic potential for producing highly competitive heavy engineering and capital-goods outputs, is sitting on the rim of the world’s biggest, fastest-growing market for imports of this type: the East Eurasia markets.

Japan must earn those imports it requires for its own continued survival. The only asset which Japan has today, is what Kissinger, Brzezinski, Volcker, and the “New Age” crowd attempted to destroy: industrial Japan. That is the industrial Japan memory associates with the Mitsubishi Research Institute’s Honorable Professor Masaki Nakajima.<sup>7</sup> It is a Japan we should remember, as living most successfully by exports of heavy engineering and high-technology capital goods. To earn those imports, it must export physical things urgently needed by, especially, its Asia neighbors. To make that work, Japan must scrap the failed, lunatic “post-industrial,” “New Age,” “globalization” model, and return to the former full industrial employment policies of an earlier, happier era of its post-war life.

Japan’s only sane alternative is thus clearly defined. To

7. “Japan’s \$500 Billion Plan for Reversing World Depression,” *EIR Special Report*, Feb. 23, 1982.

coin a phrase, Japan requires a sweeping reorientation. It must collapse the hyperinflated financial bubble created by London’s and Wall Street’s influence, and do that as quickly and as ruthlessly as possible. Meanwhile, put all available financial assets and export-import credit-lines into unleashing Japan’s leading industrial-export potentials for the Asia market. Only a barroom rhetorician, such as Krugman, would find anything ludicrous in such a reorientation.

I am not yet in a position to estimate presently, how well Japan’s leaders are making that change, away from “New Age” lunacy, back to industrial Japan. I am in a position to say, that what Minister Miyazawa’s words have proposed, contrary to the silliness of *Le Figaro*’s correspondent, appears to be one step in the right direction, both for Japan and for its Asia neighbors.

Japan must collapse the rotten, bankrupt financial structure, which was designed by the modern Biches and Mouches of London and Wall Street, to concentrate all available resources on reawakening the former industrial Japan. Thus, it is perfectly consistent for Japan, on the one side, to organize the collapse of the derivatives-oriented financial system, while expanding the industrial-export credit system.

So, in effect, Japan must collapse one side of its financial system, while creating, and boosting a new one. Nothing must be wasted in attempting to save the bankrupt system; everything must be steered into building up the new one. On the one side, write off bad financial paper at the lowest

possible price, even zero, collapsing that part of the financial system. On the other side, build up a new financial system, a new system dedicated chiefly to growth of exports from Japan's heavy engineering and high-technology capital-goods potential.

To the anxious query, "What about the fellows who invested so much in the financial bubble?" the answer is, they may have invested money in that enterprise, but the enterprise went bankrupt. They gambled, and they lost; there is no reason for us to weep over the gambling losses of useless parasites. Explain to them, "In our system, no socialist bail-out is provided for, nor sympathy extended to bankrupt professional gamblers." The parasites will simply have to write off their losses, and find some useful employment, perhaps in digging ditches, or cleaning away the waste products which have poured so copiously from the mouths of Kenneth Starr and Speaker Newt Gingrich. This time, let these bankrupted parasites now work to earn some new money, this time making certain that they actually earn it.

### **Krugman's 'Cargo Cult' economics**

In what remains, by the year A.D. 2020, as the greatly reduced population-level of Washington, D.C., the roster of local residents will consist of paleolithic-style, club-bearing cave-men. That prospective spectacle should be considered the natural outcome of the economics dogma most popular around both the Congress and White House today.

For that eventuality, the description of so-called economists such as Paul Krugman as "Cargo Cultists," can bring only nods of approval among any anthropologists then surviving, a generation from now, to consider the relevant evidence. Today, people who have not yet learned the lessons of such a future history, prefer not to call their opinions a "Cargo Cult." Today, they prefer names such as "Zero Growth," "Free Trade," "Globalization," and "Third Way." In reality, each and all of those latter terms mean nothing but "Cargo Cult" in effective practice.

As I have noted above, let us be fair to those Melanesians who were formerly accused, falsely or otherwise, of having become devotees of a "cargo cult." Whether such a "cargo cult" ever existed as described, or not, at the very worst estimate, fictional, or real, they were far, far saner than most of those sweat-suited wonks currently jogging the sidewalks and pathways of Washington, D.C. Perhaps, it is only when we demonstrate what might be described as "the utter appropriateness" of the term "Cargo Cultist," as identifying the habitués of the Mont Pelerin Society's Heritage Foundation front-organization, the American Enterprise Institute, and similar varieties of loonie menace, that the historic implications of the "free trade" cult might become obvious to relevant parts of today's policy-shaping establishment.

The parameters of belief of the alleged devotees of Melanesia's "cargo cult," were those of persons who had no

conception of the means by which the goods they used had been produced. In short, they are like that suburbanite housewife, who sees farmers as greedy parasites, and believes that the milk in her refrigerator comes not from the farmers, but the local supermarket. In general, around the suburban bedrooms of our nation's Capital, today's typical urban "cargo cultist" is often a government bureaucrat, who is a devoted follower of Newt Gingrich, who has adopted the full-blown belief of any street-corner Mafia boss, that physical goods are produced, not by planting seeds, building new high-energy-density power stations, or turning lathes, but by the act of investing money.

"Investing in what?"

"Investing my money in getting more money!"

"How does that produce more of the goods we need to live?"

"It just does!"

"Cargo cultist!"

Take Krugman's case, for example. According to his cited remarks, Japan should not bother itself about developing exports, but simply concentrate on the mysterious inability of a Japan suffering collapse in its export market, to pay its own financial obligations. How Japan is to continue to exist, is of no proper concern to Japan's finance minister, implies Krugman's quoted observation. Like Newt Gingrich and other paleolithic intellectual types, Krugman suggests that Japan's finance minister should concentrate all his attention on balancing the budget, and not waste time putting his nose into areas where Japan's net national income might be generated.

There, in Washington, or Paris, we have today's typical "cargo cultist!" Ultimately, anyone in a policy-shaping position in the U.S. government, or a Gingrich follower in the U.S. Congress, or editorial staff of the *Wall Street Journal*, who supports the currently fashionable dogmas of "free trade" and "globalization" is just as much a "cargo cultist" variety of kook as Krugman, and, implicitly, at least just as dangerous, or even more so.

The same outright lunacy of the "cargo cultist," is expressed as the delusion, that "a shift to a services economy," is a workable alternative to "an industrial society."

Take away all of those articles which define an "industrial society," as opposed to a "services economy," and what is the penultimate result? Paleolithic street-gang warfare among the tribes of thinly-populated greater Washington, D.C., for example. What do we say of the person who ignores the implied calculations to be made, but simply asserts his blind faith in the ultimate good and success of what he or she might term, alternately, either a "service economy" or an "information society"? Close both your nostrils with the fingers of one hand, and, with the other hand, point toward the man or woman you should denounce as a "Cargo cultist!"

Return from Washington, to the Paris of *Le Figaro* and

to those Francophone varieties of “cargo cultists” who, so far, usually unsuspected by saner French residents, roam those nightly streets. So, we come back to the subjects Strauss-Kahn and Krugman. Focus upon the purely fictional existence of the so-called “Euro.” That is to emphasize the fact, that the Euro exists only as a legal fiction, and that for not much longer.<sup>8</sup> Focus on one of the crucial facets of currently popular versions of the “cargo cult” ideology, the hottest of all political issues today, the issue of the economic role of the sovereign nation-state.

On this account, nothing of principle has changed since the 1630-1684 interval of the Massachusetts Bay Colony, and even earlier. There are only three sources of the marginal income indispensable for the successful existence of a modern society. Either the protectionist measures associated with what Alexander Hamilton, Mathew Carey, Friedrich List, and Henry Carey defined as “The American System of political-economy,” or looting of foreign nations, through either a combination of colonialist forms of looting, or usurious international loans.

The most successful applications of the principles of the protectionist form of American System, have been either in the U.S.A. itself, during several intervals beginning the Abraham Lincoln recovery of 1861-1876, or in nations, such as the direct copies of the Lincoln 1861-1876 model in post-1877 Germany and Meiji Restoration Japan. Such success has been the dominant feature of the periods of the U.S. economic mobilization for World War I, and for the greater part of the interval 1934-1963. As a mode of national economy, the so-called “free trade” system has always been a failure, which may have appeared, falsely, to succeed in cases such as the looting of subjugated colonies or client states by the British colonial system, and use of international loans as a means of looting subject or foreign territories and their populations.

By economic success, we must signify the general in-

---

8. The “Euro,” which will come soon to be filed under such hateful rubrics as “the French disease,” was chiefly the work of France’s President François Mitterrand, a matter of fact recently documented in significant detail, first hand, by Germany’s Chancellor Helmut Kohl. *Deutsche Einheit: Sonderedition aus den Akten des Bundeskanzleramtes 1989-1990* (München: R. Oldenbourg Verlag, 1998). Helga Zepp-LaRouche, “Germany’s Missed Historic Chance of 1989,” and “Secret Documents on German Reunification,” *Executive Intelligence Review Special Report*, Aug. 14, 1998, pp. 4-19. Under present trends, the terms of agreement to be reached before the end of 1998, can not be met. By the time the newly elected government of Germany is installed, no earlier than Oct. 23, 1998, nothing which might seem certain today, will seem as certain then. From that point on, the uncertain grows. At the point that the Euro means nothing other than a collapsing German economy’s endless subsidies of a bankrupt France, the myth of the Euro will have become painfully obvious, very painfully obvious, and increasingly so, until the cause of the pain were removed. Sometime between thirty and sixty days from now, most people in Europe would be surprised to be reminded that they had once believed almost anything they believed today.

crease of the physical-economic productive powers of labor, per capita and per square kilometer of territory, combined with a general improvement in the demographic characteristics of all of the households of which the nation is composed. To meet this standard of success, no relevant nation’s accounting can include any looting of other nations through low prices of their exports, through dumping of exports upon them, or through usurious benefits to nations engaged in the practice of international financial loans as a source of parasitical gain.

In all historic cases the nation has been brought up toward, or maintained this standard of physical-economic performance, the successful national economy has relied upon several outstanding factors: 1) a leading role by publicly-funded improvements, especially in basic economic infrastructure; 2) on either national banking, as opposed to central banking, or forms of industrial banking, which approximate national banking (such as the Hermann Abs system in Germany); 3) on governmental measures of regulation of infrastructure, trade, tariffs, and foreign capital movements and exchange; 4) on measures which have the effect of giving favorable treatment to practices which contribute to capital-intensive, energy-intensive modes of investment in scientific and technological progress, bearing upon the increase of the physical-economic productive powers of labor of the national population considered as a whole. Without such measures, or their fair approximation, no modern nation could provide the benefits of political freedom to its own population in general. No such measures could be provided, except through the agency of the modern sovereign form of nation-state.

The arguments for and against the proposition I have just outlined, have been presented over the centuries, especially since the pioneering success of the first modern national economy, that of France’s Louis XI, and since the Sixteenth-Century mercantilists, most notably of Bodin’s France, Gresham’s Tudor England, and from within Italy. Putting all of these arguments and related evidence together, all evidence supports the arguments for the so-called protectionist model of national economy, and refutes the contrary arguments of the “free traders.” The documentation, including crucial supporting evidence, is overwhelming. Among the profession of economics, only liars, charlatans, or simple illiterates disagree with the conclusion just summarized.

From the standpoint of a general theory of physical economy, the crucial feature of the proof already on the books, is the issue of what constitutes a cost of production. The Adam Smith and other “Brand X” versions of dogma, argue, on this point, that cost is what those who control production and distribution are compelled to pay, usually against their will, as the incurred costs and related expenses of production and distribution. The science of physical economy takes the directly contrary view, that there are certain elements of the cost and expense of production and physical distribution, which must be paid, that in physical-economic, rather than

money terms, to maintain the equipotential of current levels of productivity of the economic process considered as a functional whole.

On the latter point, the practical standpoint of the American System has always been that expenditures and prices must be regulated, to the degree that the amount of “pay-back” to the productive process required to maintain the functionally determined equipotential of a nation’s, or world economy’s productive powers of labor, must be regulated. This regulation must do no more nor less in the way of governmental regulation, than to ensure that payments to maintenance and improvements of infrastructure, population, production, and distribution of goods, are sufficient to cover the functionally implied costs of doing slightly better, at least, than maintaining the equipotential of the productive powers of labor as measured in per-capita and per-square-kilometer terms.

The only means by which that policy can be maintained, is the power of government. This is expressed as such regulation of prices of virtual monopolies, as to foster relative equality of opportunity for development among various localities of the national economy as a whole. It is expressed as tariff and trade agreements which serve the same end in international trade. It is expressed as policies of taxation and credit regulation which foster advantage to those kinds of investments which are most useful to the national and world economies.

Without such measures, which can be taken effectively only by governments of sovereign nation-states, the frictional effects of decentralized, relatively anarchic competitive investment and trade, will lower prices of some things to levels which pauperize and otherwise loot economies and the majorities of their populations, while fostering predatory relative monopolies in crucial areas of national and world trade. These effects are most likely, and most savage, in economies in which competitive prices for goods, labor, and financial assets are dominated by a “free trade” style in price of money itself.

The consistent result of “free trade” policies of practice has been to produce all of these, and still worse effects on the economies of most nations, and of the world in general.

In modern industrial economies, this danger is aggravated greatly by the implications of capital-intensive modes of productive investment. To foster capital investments which have a physically useful half-life-cycle of three to twenty-five years, we require capital at relatively fixed, low prices; this can not be achieved in world trade and investment without carefully regulated, relatively fixed exchange-rates among currencies over long-term intervals. This can not be achieved, if prices of capital are too high, driven upward by the discounting of capital to reflect price fluctuations within and among national currencies.

Generally speaking, a modern economy requires a prime borrowing cost for national-banking levels of issuance of

credit generally, between, and not more than 1-2% per annum. Similarly, large-scale primary capital investment in production and distribution, can not occur unless the ploughed field for such investments, basic economic infrastructure, is made and maintained. Such investments in developing and maintaining infrastructure, are generally, like railways, water management systems, and power systems, of quarter-century maturities, or even longer. These can be maintained only when capital for this purpose is available at relatively the lowest rates, in the vicinity of between 1-2% per annum.

In a time when international trade in production-related physical goods, is a very large fraction of the total turnover of all technologically leading national economies, there must be a certain stability in relative world-market prices of goods and credit for capital investment, at levels equal to or slightly above the rates required by each national economy.

To abbreviate here what must otherwise become not a report, but a weighty treatise on this and closely related topics, the sum of the matter, is that regulation of national and international economies’ affairs along these indicated lines is a precondition for a durably healthy, growing national and world economy. Without the role of related agreements by and among sovereign national governments, such preconditions of healthy economic recovery of the present world economy can not be obtained. Without the regulatory, “protectionist” functions of the sovereign nation-state, healthy economy can not exist, at least not for very long. Those who imagine otherwise, are simply deluding themselves or their dupes.

The most obvious affliction which follows lack of such protectionist institutions, is the use of artificially fostered, anarchic price movements in markets, to the effect of looting relatively long-term, capital-intensive, productive capital investments, in favor of short-term, less productive, less capital-intensive investments, and to discourage payment of those costs incurred by scientific and technological progress. This combines to foster a premium on purely speculative, as opposed to productive financial investments, and to make return on apparent monetary outlays the primary regulator of investment and trade, rather than the relative, medium- to long-term economic merit of alternate investment options.

Under conditions of unchecked “free trade,” the national and world economies so affected, assume an increasingly parasitical character, as opposed to a productive one. The shift from productive investments, especially capital-intensive and energy-intensive ones, to relatively non-intensive, and even purely wasteful enterprise, becomes an increasingly dominant tendency, as we have seen this persisting pattern of degeneration in the U.S. economy since a change in direction of national economic and budgetary policies, beginning 1966-1967.

When such deterioration sets in, the process of using-up previously invested long-term capital improvements, defines the relative scale of time-factors in the long-term process of

economic degeneration following downshifts such as those instituted in the U.S. government's economic and related policies beginning 1966-1967. As we can map such effects in terms of the degeneration of the U.S. economy over the span of 1966-1998, the time-scale for the unfolding of such degenerations of an economy, lies between the range of a decade or so for areas with relatively higher rates of capital turnover, to a generation or longer for investments in education and other long-term improvements in basic economic infrastructure.

Since such degeneration of an economy impacts most heavily those capital investments which are relatively best hidden from short-term market considerations, such as long-term improvements in basic economic infrastructure, the annual losses to the economy are to that degree somewhat hidden, temporarily, from the national income accounting procedures. Simply said: the policy of practice may be adopted, as the discretionary fraudulent practice of government, to perform national-income accounting by those deceptions which assume that what is not purchased during a current period, is not to be reflected as among the costs of annual "value-added" output. Trillions of dollars of losses on the infrastructure account of the U.S.A., were buried from sight during the 1970s, essentially by exactly that sort of accounting fraud. If those "hidden," but actual capital costs are taken into account, the

U.S. economy has been operating, as a whole, at a substantial net loss of not less than 2-3% per annum, during the entirety of the 1972-1998 period to date. If we take into account, the portion of income of the U.S. economy accrued entirely as theft from Ibero-American and other "client" nations, during the same period, we have a better estimate of the true source of the undeniable catastrophe which dominates our once-prosperous economy of thirty years earlier.

The kinds of degenerative processes associated with the repeated outcomes of periods under the influence of "free trade" policies, thus represent a diversion of wealth from productive into non-productive, even outrightly destructive practices, such as the use of the financial system as a laundry for proceeds of international drug-trafficking. This deduction has the effect of theft of that very national wealth otherwise essential to maintain successful economic growth. That kind of "theft," which is inherent in the policies of "free trade" and "globalization," is the characteristic feature which defines France's Dominique Strauss-Kahn and MIT's Paul Krugman, as representatives of a dangerous kind of "Cargo Cult." Unfortunately, it also defines the preponderance of those of President Clinton's axiomatic presumptions, which were set forth by him during the recent Washington conferences; they were also the promotion of a deadly, potentially fatal form of "Cargo Cult."

## LAROCHE ON THE NEW BRETTON WOODS

**"The present fatally ill global financial and monetary system must be radically reorganized. It can not be reformed, it must be reorganized. This must be done in the manner of a reorganization in bankruptcy, conducted under the authority not of international institutions, but of sovereign governments."**

A 90-minute videotape with excerpts from a speech by Lyndon H. LaRouche, Jr. given on March 18, 1998.

**\$35** postpaid  
Order number  
EIE 98-002

EIRNewsService  
P.O. Box 17390,  
Washington, D.C.  
20041-0390

To order, call  
**1-888-EIR-3258**  
(toll-free).

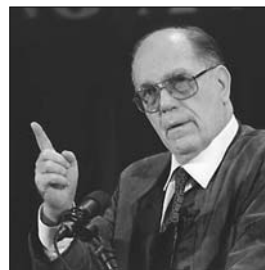
We accept Visa or MasterCard.

## THE WORLD FINANCIAL COLLAPSE LAROCHE WAS RIGHT! An EIR Video

What does Indonesia's Minister of Economy, Finance and Industry, Ginandjar Kartasasmita, know about the global financial crisis that you don't?

Here's what the Far Eastern Economic Review reported July 23:

"It seems the IMF isn't the only organization



supplying economic advice to the Jakarta government. . . . [Reporters] were surprised to spot, among [Ginandjar's] papers, a video

entitled, 'The World Financial Collapse: LaRouche was Right.' Lyndon LaRouche . . . has been arguing for years that the world's financial system was on the brink of collapse due to unfettered growth in speculative funds; he says now that the Asian crisis is just the beginning. . . ."

Order number EIE 98-005 **\$25** postpaid.

**EIR News Service** P.O. Box 17390 Washington, D.C.  
20041-0390 To order, call 1-888-EIR-3258 (toll-free)  
We accept Visa or MasterCard