exchange-rate monetary system. I mean a "basket of commodities" as U.S. Treasury Secretary Alexander Hamilton's 1791 Report to the U.S. Congress ***On The Subject of Manufactures*** defined what became known world-wide as *The American System of political-economy*. Just as the success of the 1945-1965 Transatlantic system was premised upon coordinate physical-economic growth in the combined national economies of the U.S.A. and western Europe, so Hamilton, basing himself, via Vattel, on the work of Gottfried Leibniz, based the economic policies of the U.S.A. on the mutual growth of the urban industries and the rural countryside.[4] In short, sound economics premises its measurements of performance upon growth-rates, measured in physical units per capita and per square kilometer, not upon nominal (e.g., financial) prices attached to a list of produced goods.

So, in a situation in which the hard-commodity content among currencies is fluctuating, one has still the option of constructing a synthetic unit of account which is based upon an agreed basket of hard commodities. Thereafter, as currencies fluctuate, it is the currencies, not the commodities, which are given implicitly adjusted values, as based upon the basket of commodities used to define the unit. Such a synthetic unit could serve as the accounting-system of an international credit facility, as, in that sense, the basis for creating a kind of successor to SDRs.

Thus, in the matter of medium- to long-term capital loans for hard-commodity investments, the relevant currencies are priced according to the basket of commodities as a standard. The loan is made in these units, not currency-prices; however, the exporter is credited with that number of synthetic units at the time the product is delivered, and repayments of the loan are determined by the price of the relevant currency, in those units, at the time that specific payment is due.

Thus, in effect, a barter-like system of medium- to long-term lending of hard commodity product, is used to approximate the "gold-reserve plus basket of commodities exported" system which operated in relevant Transatlantic relations during the 1945-1965 interval of a fixed-exchange-rate system.

That is the gist of the matter.

Now, examine the interim use of such a synthetic unit of trading account more closely. Examine the way in which such a unit is to be designed and managed.

It will be obvious to the reader that what is to be said on this account, involves a set of nested approximations of the exact values desired; but, that should not be considered cause for reasonable objections. The fact of the matter is, that, contrary to the *Laputa*-like superstitions which certain academic mystics spread to their credulous students at Harvard and Chicago Universities and elsewhere, all prices and related set values in day-to-day economic practice, are never closer to reality, than serving as reasonable approximations; the mythical "right price" exists only in the minds of deluded persons. Contrary to utilitarians such as Jeremy Bentham, there is no asymptotic price-value upon which commodities must tend to converge in a state of "free fall." There are no random numbers in real economic processes, but only the customary charlatans who teach a dogma of random numbers.

The margin of error which may be incurred in adopting an estimated value, such as a standard basket of commodities,

4. Today, it must be emphasized often, that the U.S. political-economy, and Constitution, echoed the influence of Gottfried Leibniz, and rejected the contrary dogma of John Locke. For example, the use of Leibniz's rebuttal of Locke: "life, liberty, and the pursuit of happiness," in the 1776 Declaration of Independence reflects this, as does Benjamin Franklin's connections to followers of Leibniz in Germany itself, such as Göttingen University's Abraham Kästner. Vattel's influence, on Hamilton and others in the Americas, is reflective of this. (See Robert Trout, "Life, Liberty, and The Pursuit of Happiness," ***Fidelio,*** Spring 1997.)

The Lautenbach Plan for Economic Recovery

In a speech on Feb. 22, 1998, Helga Zepp-LaRouche, founder of the Schiller Institute, discussed Dr. Wilhelm Lautenbach's economic program for getting Germany out of the Depression of the 1930s. Here are excerpts.

. . . 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 of 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 should be understood as a reasonable choice made, in effect, by relying upon intelligent management of the relationships by such a qualified agency, and upon an understanding rooted in good faith among the parties to the arrangement.

The Practice and the Theory

The key to establishing a reasonably determined standard unit of account for a basket of commodities, is to reject, from the outset, the reductionist input-output presumption of Britain's Piero Sraffa, for example, that consumption might be represented as a process of production of commodities by commodities. We must examine the way in which combined market-baskets of economic infrastructure (such as public works), combined with household consumption and with technologically progressive, hard-commodity forms of increasingly capital-intensive investments in capital goods of production and physical distribution, increases the relative productive powers of labor, as this is to be measured, in physical product, per capita and per square kilometer. *It is that factor of rate of growth, as expressed in hard-commodity terms, which defines the appropriate notion of assignable economic value.*

So far, so good; but, there is a catch. In some respects, such measurements of growth-rates are relatively obvious; but, therein lies an often overlooked subtlety, to ignore which may have dreadful results. Consider the more obvious kinds of measurements, and then what might appear to some to be the awfully clever subtleties.

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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 counterproductive, 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 a value increase, 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 faster 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. . . .