

## ‘Stiglitz Doesn’t Understand Economy’

These are some of the exchanges between Lyndon LaRouche and the 500-person Coahuila University audience, after his presentation. Questions are translated from the Spanish.

Q: One of the International Monetary Fund’s policies regarding countries that ask for loans, is imposing certain conditionalities. They say, for example, “I’ll lend, but you can’t invest in education.” The other restriction is globalization—a new globalization, a restructuring—[achieved] for example, through a third world war, as part of this new globalization.

LaRouche: Well, the point is that we’re going to have to scrap the IMF. There is no way you’re going to come out of this crisis—and I’m not talking about the long distance, I’m talking about a matter of months—we are at the absolute end. The cliff is there. Now, if you’re on wet grass, on a slope leading to a cliff, you don’t know exactly when you’re going to go over the cliff. You can’t predict the exact date, but you can say whether it’s near or not. We’re very near.

Now, that being the case, since we can not operate under IMF rules, the IMF will have to be dissolved in its present form. There’s only one way to do that without bloodshed, and that is to have governments such as the governments of the United States and Mexico, and some other governments, agree that we’re going to put the IMF into bankruptcy reorganization. Then what happens, we go back to the old Bretton Woods standard, not to imitate it perfectly, but to use that as a legal model of reference, a precedent that we can use. It worked. It had a lot of defects, but it worked. So, let’s start from there, the last thing that worked. So, the governments now should set up the standards, because government is going to create the credit, not the IMF. Governments should set the standard for international loans and conditionalities. That means that we must have certain general standards, on the one hand, but must also have another mission.

You know, Kepler described the way the Solar System functions. The planets function not on the basis of inertia, they function on a mission. There are universal laws which have to be discovered, such as the law of gravitation, and this law functions as a mission. Remember the example that Kepler gave, the example of the orbit. How did Kepler prove that Aristotle was an idiot? And he wrote a great deal about that in his *New Astronomy*. Because the Earth does not continue in orbit out of inertia as a fixed thing. Why? First, because the orbit is elliptical. That’s not too regular. Secondly, the rate of motion of the planet along the orbit is absolutely

constantly non-uniform. So there’s no simple uniform principle. You have to know what the principle is, the principle of gravitation, which is—well, Kepler described it as God’s intention. God’s intention is intervening on sense-experience, to force what you see to move in a way contrary to what sense-experience would tell you. These are called universal physical laws.

Now, in government, we are human beings. Human beings, we say, are made in the image of the Creator of the Universe. That means, not that we look like God, because I tell you we don’t. God would be ashamed to look like us. But because we partake of the same essential quality which separates God from the animal. We have this power, the power to express an intention, which we call a universal physical law, an intention. We impose that intention upon society’s practice, or upon our own practice. We are able to change the Universe. If Man were a monkey, we’d only have 3 million of us on this planet today. But we have 6.2 billion people. That’s orders of magnitude greater than any monkey can achieve. How did we achieve that? By discoveries of the human mind, which enable us to impose the human will lawfully—not arbitrarily, but by discovering principles—upon Nature, and thus increasing Man’s power to exist on this planet and in this Universe.

So therefore, we have to say that government is an instrument of a creature made in the image of the Creator. The distinction of this is that we operate on principles, rather than smell. Therefore we, in assuming responsibilities of government, have to assume them under God. This is called Natural Law. We, therefore, have to make decisions which are sound in principle, and say that we will govern our practice as a society, by what we know to be sound principles, in the same sense that gravitation is a sound principle. Therefore, we will say, offhand, 50% emphasis on infrastructure. Certain other priorities, certain specific priorities. We say, these are our priorities. What de Gaulle called ‘indicative planning.’ So, if someone comes to a banker, a private entrepreneur comes to a banker, who is working under the instruction of the new system, the banker is going to have a set of guidelines which he has to use his judgment on also. But, he will define his judgment in terms of certain rules which are agreed upon by these institutions. And he says, “I think that Joe, this guy who’s applying for the loan, on the basis of his performance, can do the job he says he’s going to do, and since this is what we want done, let’s give Joe a chance.” And that’s the way it has to operate.

We don’t need any globalization system. The danger of war does not come from globalization as such. Globalization comes from people who want to set up a world empire. And the globalization comes from Utopians who want to set up sociological systems, like H.G. Wells and Bertrand Russell, and say that if we let this Hobbesian kind of conflict function, we’ll have a perfect society. What these guys believe in, is that setting up a power which has a monopoly over nuclear weapons and land, sea, and air, will force the world to accept



The attentive audience of 500 at the University of Coahuila lecture hall, primarily made up of students, who asked questions during the hour-long dialogue with LaRouche after his presentation.

world government, and regulate population, including conduct of genocide, accordingly. We want none of that. We have to put the power back in the sovereign nation-state, but we, in assuming the sovereign nation-state—that power and responsibility—have to understand the moral implications of that responsibility, which accrue to us; moral obligations take the form of scientific obligations. We must think about what we’re doing three generations from now, not only for our people, but for the people of the rest of this planet. And that’s the way to set the rules.

### What Makes a Successful Economy

Q: In your view, among the emerging economies is there an IMF success story? Each time that an emerging economy goes into crisis, the IMF dictates a series of measures which throw it into another recurring crisis. That country is told if it doesn’t impose those measures, the result will be chaos. [The Fund] says there’s no time, and no way to develop a focus on a new system, because there’s no time. Is that true?

LaRouche: Well, there are a lot of success stories or attempted success stories. I know of a lot of them. But success has been largely based on power. Now China doesn’t understand the world. There are Chinese who do understand the world, but China doesn’t understand the world as a whole. It doesn’t have that way of thinking, culturally, about the world as a whole. But we have people in Eurasia, more and more of them, who realize that we must deal with this problem. We must overthrow the present system. This is much more significant than the press would allow you to believe. I’ve been dealing with this. I’ve been dealing with this in, say, China, Japan, Korea, Russia, Italy, India, elsewhere. There is a lot of very strong feeling about this.

The power of the United States is collapsing. The United States might go to war against Iraq in January or February, but will the United States, which is bankrupt, be able to pay for the plane tickets to get the troops over there to fight the war? We’re in a situation in which the collapse of the economic system, is destroying the logistical basis for conduct of war-fighting. Therefore, this is a constraint on power. This is the real basis for the crisis in the United States.

You have a cultural crisis inside the United States, on the issue of economy vs. war. The President says we must have a war. The President says, “I’m smilin’ at you in the day, but if ya don’t do like I tell ya, I may have to kill ya.” That’s the kind of thing we’re getting. But the point is, the President can not afford the price of a plane ticket to send the troops over to fight the war.

In all war, real modern warfare, especially since the 18th Century, since Vauban and Carnot in France, the principle of warfare is strategic defense. The basis of strategic defense is logistics, it’s engineering. The United States won World War II with logistics, with engineering, not with kill-power. You have a bunch of idiots today who say, if you can kill everybody, you can dominate the planet. They train soldiers to kill, but not to think. They can’t produce. In all warfare, as in the war against Japan conducted by MacArthur during the Second World War, it was out-thinking the Japanese, and the power of logistics, which enabled us to win the war, not kill-power. We avoided killing people.

You don’t win peace by killing people. You create hatred by killing people. In warfare, you try to minimize the killing, not maximize it. You must win the war, but you don’t want to kill the people, and you regret every one you have to kill, and wish you could do less. You don’t go out with hate. You

go out with the attempt to try to build society for the future. You're thinking about peace for future generations. You're forced to fight the war, but you don't want the war, you want the peace, and war doesn't bring peace. War may be necessary, but it doesn't bring peace.

So, in the case of economies, the power that is now being exerted is the supremacy of humanity over the beast. The beasts, led by Lynne Cheney, want war. The baboon society of the United States. What's going to decide this is humanity, the laws of the nations, not arbitrary laws, but Natural Law. To win a war, you have to win it logistically, and the United States as a nation is dying. The United States' physical power depends upon looting other nations. These nations are being bankrupted. The chief bastion of security of the United States has always been Central and South America. The Americas flank of the United States is the secret of U.S. national security. If the United States is destroying Mexico and South America, the United States has no security. Now, idiots who believe in killing may think differently, but those of us who understand this, see it differently. What's happening is, in a sense, the hand of God is intervening. The war may occur, but there is no possibility that the United States, led by George Bush, could ever win the war he says he seeks to enlarge. And that is going to be decisive. Thus, in the end, look at what humanity's gone through over all these thousands of years. Millions of years. Humanity has progressed from a few million individuals potential, to 6.2 billion today. This indicates there's a certain factor of success in the human species, and all we have to do is enhance the power of the human species to be human, and we have a chance of winning the war. I think we can win this war.

I don't think we have to talk about emerging economies any more. I think it's bad to get into it. I think we have to talk about justice, and a new world system, a system hopefully beyond war, in which relations among nations are based on a common interest in the sovereignty and benefits of each. I think we can win this war, and that's what I'm trying to do.

Q: The diagnosis of the international financial crisis presented by Mr. LaRouche, is very different from that of Joseph Stiglitz, winner of the Nobel Prize in 2001 and [former] Chief Economist at the World Bank. Is the difference in the analysis, or in the policies you recommend regarding the trade system and solution to the world economic crisis? Professor Stiglitz comments that the solution is not to return to the past, not to adopt protectionist policies, but rather have an integral trading system. Also, as human beings, in contrast to the monkeys or primates, we can understand that the development of science and technology affects the people of different countries, and that it is difficult to return to the past because the new technologies shorten distances and reduce timeframes.

I would also like you to go into more detail a little bit, on the need to return to the past and the Bretton Woods System, because as beings who can learn history, we can identify the limits of those systems of organization and international pay-

ments system. The problem with Bretton Woods is that it was an asymmetrical payments system. Pegging the parity of currencies to a gold reserve system also has limitations, and is also a difficult payments system which depends on the gold supply, which is asymmetrical. . . . Could you give us your opinion on this?

LaRouche: Stiglitz does not understand economy, he understands finance. He doesn't understand how an economy works. An economy is not financial in its essence. Money and monetary affairs are a medium of exchange. They're not an efficient principle. The problem is that Stiglitz's analysis is based on an accounting assessment, not on a physical-economic assessment of how an economy actually works. And he's very much a pessimist, almost Nietzschean in his pessimism. He does delight in attacking his former colleagues, and some of this is richly amusing to some people. It's justified, because attacking baboons for inhumanity is legitimate, but it doesn't solve the problem. The essence of physical economy lies in capital, which requires regulation.

By capital we mean, for example, if you want to create a production power plant, a large-scale-production power plant may take three to five years, minimum, to assemble. And then you attach to it, of course, the entire network system of distributing the power that plant generates. Now, you have to say, how are you going to pay for an outlay for this power plant? You've spent three to five years with no payments, no earned income. How are you going to pay for that? Then you have the operating costs. Well, you have two things: First of all, you can not build a system of power plants by anything but a government. That is, the government has to organize a set of rules and so forth, otherwise you can't build such a system. So, it has to be governmental. The system has to be designed not to sell a product on the market; it's not based on trade, but it's based on delivering to the society, as with the U.S. rural electrification program of the 1930s under Roosevelt; it is to deliver to society a result, power. Power at a reasonable price, with guaranteed reliability and accessibility. Power distributed for general availability over a large area, eventually over an entire national economy.

So therefore, you have to set up the system. Therefore, you have to set a standard of prices. Now you have to anticipate the payoff of the capital investment in creating the facility against that. Generally, if you study the history of amortization, and look critically at mistakes in amortization, the principle of amortization, the amortization of cost, of capital cost, takes you into cycles which run you about a quarter of a century. If you have fluctuations in those values, that is, financial fluctuations, during that period, the system will tend to decay. The problem in the post-war system—there were no mistakes in the Bretton Woods System in design. The mistakes were in implementation, and the mistake was very simple. The mistake stemmed from the Summer of 1944, at the time of the U.S. Democratic Party nominating convention of 1944.

The United States was on the way to Hell, from the time of the successful assassination of William McKinley until

Franklin Roosevelt became President. Roosevelt intervened in a crisis, in which the entire Teddy Roosevelt/Woodrow Wilson/Calvin Coolidge system had been totally discredited by the events of the world depression. Franklin Roosevelt, who was an American patriot where these guys were American Tories, intervened stepwise to restore the United States. In 1936, the British had planned a war in Europe, a second world war. At that point, they did not want the United States involved, because if the United States had been involved in the second world war, they calculated, the United States would emerge from the war as the dominant world power, and the British did not want that, especially if a system like that of Franklin Roosevelt was in power.

So what they did was, once the Normandy breach had occurred, once the U.S. Allied forces had gone into Normandy, had totally outflanked the Nazi power, the situation in Germany was hopeless for the Nazis. In July of that year, the generals revolted. They were betrayed by the British to the SS, but they revolted because the war was over, all but the shouting. At that point, in the Summer of 1944, Roosevelt, who had suffered from the effects of poliomyelitis, was actually dying of fatigue and the side effects of his illness. And at the convention, the oligarchy, the moneybags of Wall Street and London, said, how do we get rid of Roosevelt? He's going to be elected to a fourth term. How do we get rid of him? Well, he's going to die soon, so we have to make sure that the Vice President who is nominated at this convention, will not be a Roosevelt man, but our man. So [Henry] Wallace was replaced by that pig Harry Truman.

The first result of that was the buildup of the terror bombing in Europe, which was useless, and the decision by Truman, for no military reason at the time, to drop nuclear weapons on Hiroshima and Nagasaki. The purpose of that was that this crowd, which couldn't get rid of Roosevelt immediately, were determined to purge the United States, number one, of the Roosevelt legacy, which is actually the American patriotic legacy. In order to create an Anglo-American world empire, this world empire was to be based on the use of nuclear weapons, on the basis of land-based, sea-based, and air-based nuclear weapons, to introduce a factor of such terror in warfare, that nations would submit to world government and surrender their sovereignty. This was the policy, this has been the policy of that faction in the United States and Britain, from then to the present day. This was the basis of the entire post-war period. However, they got rid of MacArthur, but it took time to get rid of Eisenhower.

When they got rid of Eisenhower, we had a whole lot of things happen, including the assassination of Mattei, the attempted assassination of de Gaulle in France, including the premature retirement of Macmillan in England by a scandal, the premature retirement of Adenauer in 1957 in Germany. Step by step, these fellows moved in. The assassination of Kennedy, the launching of the Indo-China war, the assassination of Martin Luther King, the assassination of Bobby Kennedy, were part of a reign of terror which brought this racist

pig Nixon into the Presidency, under the supervision of super-pig Henry Kissinger, the National Security Adviser. All hell broke loose, including. . . . Who set 1971 into place? Henry Kissinger, Paul Volcker, and George Shultz. . . . These are the guys that told John Connally to tell Nixon to shut down the system and set up a floating-exchange-rate system. So, a system was set up to destroy two things: to create an international military conflict, a nuclear conflict whose purpose was to establish world government, to destroy the American System and everything Roosevelt represented, to destroy the American people by corrupting them, as was done in the 1960s with the cultural paradigm shift which occurred in the middle of the 1960s.

So, we've been through a process of change, which resulted in the transition to a consumer society, so-called post-industrial society, whose aim is to set up world government. Once the Soviet system had collapsed, they went haywire. That is the problem. There was never a problem of the Bretton Woods System, except what should have been done, because of the inflationary effects of policies introduced partly under Arthur Burns in the 1950s, and then during the 1960s, is the rate of inflation of the U.S. dollar, the objective inflation, was so high that the price of monetary reserve gold should have been increased, and the dollar devalued.

Today, to set up such a system, the minimal price for reserve gold, for a new fixed parity system, would probably be on the order of magnitude of \$1,000/troy ounce in a reserve system. We will have to set up such a system or this planet will not survive, because if you take the present world population, the deficit in productive capabilities worldwide, the problems we're having, including disease problems which are now becoming much greater than you people could imagine—epidemics—unless we do that, humanity is not going to survive. It's going to go into a dark age. We have no choice but to go back to the Roosevelt system of 1944-45, before he died. That's our only choice. Not as a carbon copy, but as a precedent. If you look back at the history of economy in modern society, especially since the American Revolution, you'll see that this is the only kind of system that works.

The problem of these guys is that the world has been brainwashed into this idea of capitalism and socialism. Neither of which makes sense. Capitalism is not capitalism, it's a form of feudalism. It's the Venetian model. Socialism is a confusion. It often expresses very interesting ideas in terms of social policy and justice, but represents no systemic comprehension of the role of entrepreneurship in making a modern economy function. So, the only thing we have left is the American System of political-economy, of people such as Alexander Hamilton, List, the Careys, and so forth. And I would suggest that from the standpoint of the facts of the matter, we have no choice. There is no alternative model.

And that's the problem with Stiglitz. He has no sense of what an economy is, he makes no proposals that make any sense; he makes sociological arguments, sociological, ideological arguments, not scientific ones.