‘What We Must Do’: LaRouche On the FDR Model for Real Recovery Measures

To Pennsylvania Legislators, March 31, 2004

We’re going to have to react to this crisis, with the mental outlook of Franklin Roosevelt’s entry into the White House in 1933; Roosevelt-type measures. The situation is somewhat different. It’s more severe, in fact. But the same philosophy of government must be applied to the present situation, that was applied by Roosevelt, using the lessons we have learned from the experience of Roosevelt, and the lessons we have learned from *abandoning* the reforms that he introduced to get us out of the depression into recovery.

Now what is going to have to be done, is this.

The international monetary-financial system is hopelessly bankrupt. There is no solution, for this bankruptcy, in terms of the system. What happened in Argentina, and what is on the verge of happening in Brazil, typifies what’s going on. The system is bankrupt. The question is: When the bankruptcy occurs, whose life are you going to save? Are you going to save the banker, the financier, or are you going to save the people? Roosevelt made the choice of saving the people. In Germany, they chose Hitler, who chose to save the bankers. This is what we’re up against.

Now, if the President of the United States, in our tradition, and under the provisions of the Preamble of the Constitution, says the system is bankrupt, and engages other governments—which I know I could engage, as President—engages other governments in supporting us in that common action, we as governments, would put the IMF, *and* the Federal Reserve System, into bankruptcy reorganization. We would take emergency measures of the type that Roosevelt did—more drastic, but the same principle, in order to make sure that nothing collapses: that pensions are paid, that jobs continue, and essential services are continued.

We would then, under bankruptcy reorganization, launch a large-scale infrastructure-building program. What I’ve shot for, for the next four years—$6 trillion of investment in basic economic infrastructure: the generation and distribution of power; large-scale water systems; large-scale transportation systems, both for communities as well as for the nation. To reactivate the states, with Federal credit to states, for creating public utilities in states, restoring public utilities, with the cooperation of legislation passed by the states: Thus, we will have a regulated public utility system, in these areas. This will create a core of jobs. The objective is, a *10 million net increase in jobs* in the United States, during that period.

If we do that, with the Federal assistance—Roosevelt-style, like the TVA kind of program—if we do this, this will automatically generate a market for private jobs. This market will then mean giving credit to approved banks, for approved categories of credit, to finance—as we did war production—to finance local entrepreneurs, with the credit needed for capital formation, to take on some of these jobs which would be stimulated by Federal and state action.

This is what we require. *There is no other solution*—on a world scale, or on a national scale.

In a Campaign Special Report, April 2002

These excerpts are taken from the candidate’s own leading contribution to a 140-page special policy report, Economics: At the End of a Delusion*, released by the LaRouche in 2004 campaign committee in April 2004, and still in wide circulation.*

Three Actions Necessary Today

Today, a general, qualitative breakdown-crisis is already darkening the horizon. To illustrate the nature of that challenge, I list a number of typical actions to be taken to halt the depression and launch a self-sustainable recovery.

1. We must a.) put the international monetary-financial system into immediate, governments-dictated reorganization; b.) restore a fixed-exchange-rate system; c.) establish exchange, capital, financial controls, trade controls, and fair-trade forms of protectionist measures internally and externally; d.) increase drastically rates of taxation on financial capital gains, and substitute production- and technology-oriented medium- to long-term investment tax credits to entrepreneurs; e.) generate large masses of government-created credit at rates between 1-2% for, chiefly, a combination of entrepreneurial investment production and infrastructure investment; and f.) implement a general bank-reorganization program, which keeps needed banks performing essential functions for the community while under even drastic financial reorganization.
2. We replace “free trade” with the promotion of pro-

The preceding, 1967-2000 take-down of American economic infrastructure and industrial capabilities, makes this crisis qualitatively different from the 1930s Great Depression. The tens of thousands of laid-off New Yorkers in late 2001 were not industrial workers as in the 1930s, but service workers, New York's industry having long since disappeared.

tected hard-commodity international trade, as part of the promotion of a global, long-term economic-recovery effort.

3. We must introduce the economic equivalent of a high-technology-oriented "arsenal of democracy" recovery program, both in the domestic economy and in world trade, to provide the qualitative dimension needed to reverse the monstrous loss of technologically progressive, physical-productive capacity and potential—a loss which has accumulated in the world as a whole during the recent thirty years, especially the recent quarter-century.

We had better take such measures, to stop that process of collapse before it hits with irresistable, crushing force.

With the guidance and backing of the world's leading economist of that time, Henry C. Carey, President Abraham Lincoln made possible the U.S. economic miracle of 1861-1876, as Franklin Roosevelt, at a later point, saved the U.S.A. Under the impact of Roosevelt's intervention, the U.S.A., and the world, avoided the risk of a slide into an actual breakdown-crisis.

Nonetheless, as I have already indicated above, I say again, that there are certain crucial points of difference between the challenge of organizing an economic recovery under conditions of today's threatened breakdown crisis, and the challenge of the world depression successfully met by incoming President Franklin Roosevelt. I shall deal with the most typical such new challenges, in my section of this report.

Some Immediate Changes

The pivotal feature of an effective program of recovery of the U.S. economy, will be the inclusion of a drastic restructuring of the composition of employment and real (i.e., physical) incomes within the society as a whole. The general thrust will be, in effect, to reverse the post-1963-1966 trends in shifting composition of the categories of employment. These reversals will be brought about largely through rewriting the principles of the monetary, financial, and taxation systems. These changes must be in directions consistent with those

Franklin Delano Roosevelt mobilizing the American people to back his measures of recovery from the Depression, which expressed the effective principles of the American System of political economy.

constitutional principles illustrated by the celebrated reports to the U.S. Congress by our first U.S. Treasury Secretary, Alexander Hamilton.

For example, essential services in the "soft" category of basic economic infrastructure, such as Classical modes in education, Hill-Burton standards for health-care, and services of Classical physical science generally, will be rapidly increased, together with increased rations of employment in the sectors of agriculture, manufacturing, engineering, and general building and maintenance of "hard" forms of basic economic infrastructure. Employment in "white-collar" categories of sales and non-scientific professional services, will be sharply reduced. *For the immediate years ahead, this shift, reversing recent trends in structural composition of employment of the national labor-force, thus reversing the post-1963 trend toward so-called "post-industrial society," is the principal economic-policy measure required, as a source for introducing and accelerating increases in the average physical productivity of the labor-force as a whole.*

The rebuilding of the U.S. economy will occur as an expression of chiefly two sets of interdependent priorities. *As a general rule, the primary mission of the U.S. government's role, will be to foster the conditions required by consideration of national economic security, as we used to define national economic security, during the 1933-1964 interval. The second factor will be a relatively high priority placed upon utilization of potentially useful elements of fallowed physical-economic assets, such as those of neglected entrepreneurial agricultural and industrial potential.* The direction given to realization of those two objectives of national economic security, will be supplied by the development of the foundations for a science-driver mission-orientation, as the leading-edge mission of medium- to long-term U.S. economic-development policy.

For obvious, practical reasons, in the present case, as during the Franklin Roosevelt-led economic recovery of the 1933-1945 interval, *the principal shift will be a reflection of a large-scale increase of public and related employment in the building and maintenance of essential forms of both "soft" and "hard" basic economic infrastructure.* The reactivation of idled industrial and related work-places of the private sector, will be gradually superseded in importance by additional such work-places. *The most rapidly growing sectors of private employment, outside basic economic infrastructure, should be in the development of closely-held, technologically innovative entrepreneurships.*

U.S. policy-shapers, and others, must be reminded, that it is not the giant stockholders' corporation, which was the driver of U.S. economic progress. It was the closely-held entrepreneurship, each led by one or several personalities of some exceptional scientific or analogous talent. It was these, local community-based entrepreneurships, which provided large enterprises with the innovative technologies on which the sometimes ill-deserved good reputation of the giant corporation often depended.

Otherwise, *economic reconstruction will enjoy the impulse supplied by special national mission-orientations, including space-exploration programs.* These mission-oriented "crash programs," military and otherwise, will be modelled on such precedents as those of France under Minister Jean-Baptiste Colbert, and by Lazare Carnot and the École Polytechnique later, which have made decisive contributions to the leaps in productive powers of labor, and standard of living. Unfortunately, because of a lack of even elementary knowledge of the principles of technology among most professional economists today, the reason for the unique kinds of success realized by programs such as the pre-1969 U.S. space program, especially the Kennedy "crash program" for the manned Moon-landing, are not now competently assessed generally.

During the short to medium term, the increases in employment will occur chiefly in two overlapping general classifications. First, *there must be an emphasis on rebuilding the physical capacity of already standard qualities of physical production of goods, and of basic economic infrastructure, up to approximately the percentiles, and relative composition of employment, of the total labor-force represented more than* *a quarter-century ago, prior to the Carter-Brzezinski catastrophe.* This means, that government and banking must direct much of the shift in employment-patterns, away from technologically unskilled categories of sales and service occupations, into approximately the same categories and rations of the available labor-force of a time prior to a quarter-century ago.

In addition, *there will be large-scale projects, largely funded through issuance of Federally created low-cost, long-term credit, in the essential categories of mass transportation, energy production and distribution, water management and sanitation, and in education and health-care programs. As under President Franklin Roosevelt, during the 1930s, the most important factor of real (physical) economic growth will be, initially, in large-scale public works in these categories of infrastructure-building.*

This initial phase of rebuilding the physical economy and employment, will overlap an initially gradual, but accelerating factor of scientific and technological advancement. Government-sponsored science-driver programs, such as the space program, will be a leading element in technological spin-offs spilling into growth of the general rate of increase of per-capita productivity. As in the case of the spill-overs from the Kennedy Moon-landing program, especially the programs in motion prior to the crucial cut-backs of 1966-1967, *the general rate of increase of productivity will continue to flow into many categories of designs of products and improvements of productive processes, during as early as the first decade of a recovery program.*

These programs of investment and employment will be steered by combinations of interacting sets of changes in U.S. monetary, credit, and taxation policies. *These policies will be crafted to shape the future of the economy for one to two generations yet to come. In short, we are designing the next long-range physical-economic cycle; we are building the intention of the "orbital" cycle into the next cycles of the economy, in advance.* This is somewhat similar to what the Fifth Republic government of President Charles de Gaulle knew as "indicative planning," not Soviet-style, "socialist state planning." *The U.S. economy's private sector, is to be returned to being essentially an entrepreneurial economy, rather than a "shareholder value" economy,* a production-oriented society, rather than a consumer society. . . .

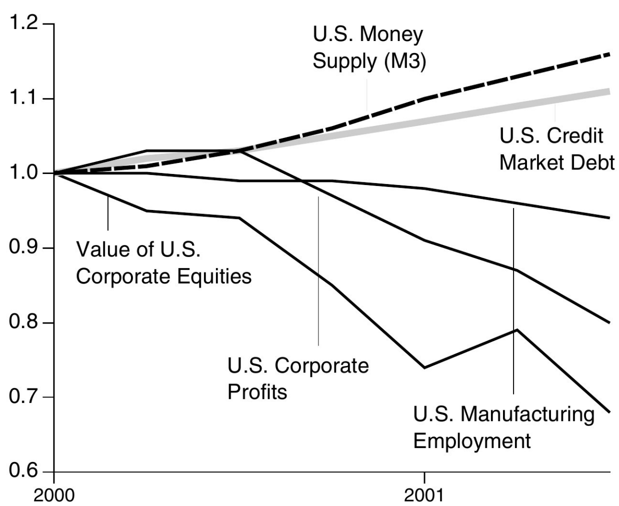
Investment Tax Credits

Among the most relevant examples of regulation, for our purposes here, is the proper use of investment tax-credits. . .

It is in the vital interest of any national economy, to prevent the takeover of its monetary-financial system by what are known as "financial bubbles." Any economy which is dominated by what is called today "monetarism," will create a form of financial-economic cancer called a financial bubble. This was a tendency built into the U.S. economy by the influence of Arthur Burns et al., a tendency which was greatly aggravated by the Nixon and Carter administrations, and accelerated still more by such examples as Garn-St Germain and Kemp-Roth. The systemic feature of the present world economy, which distinguishes this present crisis as a breakdown-crisis, rather than a mere cyclical depression, is the fact, that the cancerous influence of recent decades monetarist fads have turned the world's monetary-financial system into the worst, most bloated financial bubble in history.

U.S. Economy's 'Triple Curve' Collapse Function, 2000-2001.

(Indexed To 2001/1Q = 1.00)

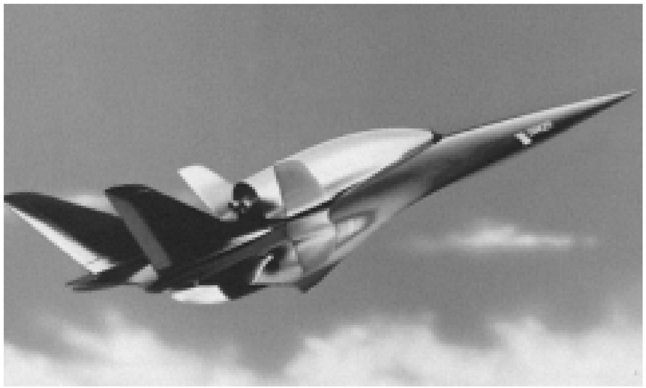


Sources: U.S. Department of Commerce, Federal Reserve.

Since no later than 2000, U.S. monetary printing has grown at a rate faster than the financial assets the money-printing was trying to hold up. Meanwhile, the underlying real economy has fallen at an increasing rate: this is LaRouche's Triple Curve Collapse Function.

One among the most efficient instruments concocted for dealing with the threat of cancerous financial bubbles, has been the graduated income-tax. By imposing heavy tax-rates on purely financial capital-gains, and giving relatively favorable tax-treatment to useful investments in the physical capital of technological progress, we have a result which may appear to some to be a "tax-incentive," but is actually an anti-inflationary mechanism for regulating the flow of financial capital within the economy as a whole. The object is to steer the flow of physical-capital formation and accumulation into categories which are most useful, and to drain off excessive flows of financial capital into the cancerous sink-holes of short- to medium-term financial speculation. Such taxation policies as these, flow in design and purpose from the constitutional principle of the promotion of the general welfare.

For a better insight into a prudent investment tax-credit policy, look at such eligible classes of investments from the standpoint of the elementary principles of physical economy.



A two-stage hypersonic ramjet spaceplane, typical of the "science driver" challenges of a space-colonization initiative for the economy. Such a science-driver approach shifts the workforce toward new learning, skills, and new productive employment.

On the condition that the relevant development of basic economic infrastructure is provided, investment programs oriented to increasingly energy-dense, capital-intensive modes, express the embodiment of relatively advanced technologies into both the design of products and production processes. This has an effect, as a secular tendency, to lower the net physical cost of unit-production, while improving the product. Thus, it is the desire of prudent government, to ensure that a share of the gain in productivity be returned to the investor, with the thought that this steering of the flow of income, will tend to increase the concentration of capital formation in areas of activity which better serve the improvement of the general welfare.

The use of the regulatory powers, and power to tax by government, is one way of steering the domestic flow of activities of the national economy into beneficial directions. The other measures are chiefly budgetary.

The latter are typified by investments in three areas: a.) hard infrastructure, such as mass transportation, large-scale water management and sanitation, and power generation and distribution; b.) soft basic infrastructure, typified by educational and health-care systems; and, c.) "crash program" types of science-driver programs. These programs are sustained, as government itself is sustained, chiefly through general taxation at various levels of government. The system the United States had developed, up to the middle of the 1960s, is a fair approximation of a sound arrangement.

A similar approach is applied to regulation of both domestic and foreign trade. The general object of sane government is the establishment and maintenance of what has been sometimes called a "fair trade" policy.

A sane "fair trade" policy does not consider any price as sacrosanct. Rather, it is in the national interest that the nation maintain sufficient productive resources within its borders to withstand the equivalent of an extended siege. It is urgent that these resources be of a relatively competitive quality, in product and productivity, This means that the quality of the labor-force households must be maintained by fair household incomes and other means, and that the level of technological improvements be consistent with national economic security.

This has nothing to do, intrinsically, with trade war or such matters; it is purely an internal matter of sane, orderly precautions taken in the interest of national economic security. We are wise to be as generous as possible in our dealings with other nations, but we must also be committed to the kinds of agreements on "fair trade" policies which foster their national economic security, as the same kinds of such measures benefit our own.

Wages policies, and related matters, fall under the same heading as "investment tax-credit" policy.

The basic expression of national economic self-interest, lies in the cycle of development of the young individual from birth through adult maturity, an interval of up to twenty-five years. The quality of life, education, and so forth afforded those households during that interval, should be assessed as we should assess an investment tax-credit policy.

For example—this contrary to the Nazi doctrine concerning "lives not worthy to be lived," which persists in circles in several nations, including the U.S.A., today—the care of the senior citizen is as essential to the general welfare as the care of the child and youth. The loss of the kind of social relations which used to be supplied by the extended-family relationships among relatively stable families and communities, has been savagely impaired over the course of the post-1945 decades, especially since 1971. The most important part of the development of the child and youth, is the sense of cognitive aspects of cultural connections over a span of one to two centuries preceding. This sense of "who I am now," in respect to preceding and coming generations, is not only an essential source of a moral sense of social identity, but is essential to the development of the cognitive powers of the young individual.

There is no short- to medium-term price-mechanism in a so-called "free market" setting, which could possibly converge asymptotically upon a "fair price." If it is said, today, that "the price is right," we may be assured, usually, that that price is wrong from the standpoint of the general welfare of society.

The points of illustration just supplied, typify the way in which rational forms of intentions shape the way in which a money-economy should work. By building such intentions into the structures of monetary, financial, budgetary, regulatory, taxation policies, and so on, society defines a set of parameters which will regulate the way in which the effects of pricing interact in the economy as a whole. These measures act as constraints, which have an effect akin to the role of universal physical principles in Riemannian views of a Solar System.

Such constraints do not determine the actual course of the economic process by themselves. Physical-economic growth depends upon the insertion of cognitive innovations into this quasi-axiomatic framework. That situates and defines those changes in the economic process on which net physical-economic growth depends. . . .

A New Monetary System

In effect, in any monetary-financial collapse on the scale and extent of the present global crisis, it will be necessary to create a new monetary system, eliminating the old. No alternative to that is tolerable. In many cases, existing currencies must be either replaced by new ones, or extensively reorganized. Since the changes must be sudden ones, measures of reform must be as close to what has been proven to have been successful previously, as possible. Therefore, the successful precedent of the 1945-1964 Bretton Woods post-war reconstruction model, should be applied to the task of defining a global version of a multi-polar system of kindred features among sovereign nation-states; that is simply the only visible choice of an equitable use of proven precedent available.

For various reasons, rather than attempt to replace the U.S. dollar with a new currency, it were better to protect the dollar with protectionist regulatory measures. The measures required must include the establishment of a U.S. National Bank. The following scenario typifies the approach required for this reform.

Since the Federal Reserve System is implicitly bankrupt, it is the constitutional obligation of the U.S. government to take over the Federal Reserve System itself, in receivership. This will place that System itself under the administration of the U.S. Treasury. The plan will be to phase out Federal Reserve notes, discreetly, over time, while creating a new instrument of Federal credit for reconstruction-based recovery of the U.S. economy. This will require a system of gold-reserve-denominated U.S. Treasury dollars, whose leading function shall be to serve as an integral part of the mechanism of issuing medium- to long-term credits at borrowing-costs of between 1% and 2% annual simple interest. Lessons from Franklin Roosevelt's terms in office should be employed, whenever suitable and feasible.

The objective should be to bring the level of U.S. physical and related output up to above physical-economic break-even, and also in terms of Federal tax and other revenues over the medium-term period. The credit issued should be focussed on the combined objectives of short-term stabilization and medium- to long-term growth.

Once again, on this point, as on points argued here earlier, we must not lose sight of the reality, that economic processes function in terms of the underlying influence of long-ranging cycles. Remedies for a crisis of the present type, for example, can not be successful over a short term; therefore, there will be no solution available for this crisis, which does not rely upon the creation of state credit as a mechanism for bridging the gap between present bankruptcy and future break-even.

Through this mechanism, the following types of measures should be taken for reform of the U.S. private banking system. All banks which have functions of deposit and credit which are essential to continuation of orderly functioning of society, should continue to be used as instruments of delivery of payments due on pensions and scheduled release of savings, as well as new transactions, under provisions for use of Federal credit. The ordinary life of the ordinary citizen and community should continue with a minimum of disruption.

International Measures

One of the unavoidable major features of any feasible recovery from the present systemic breakdown-crisis, will be a sharp reversal of the recent decades' trends toward "globalized" forms of "free trade." The U.S. economy provides adequate illustration of this general point.

Since the past thirty-odd years of ongoing, systemic destruction of the U.S. physical economy by radically monetarist measures, the U.S.A., like the centuries-long British empire, has maintained its power through increasing dependency on what are sometimes termed, euphemistically, "invisible earnings." The United States has, in effect, become a parasite, subsisting on such forms of tribute as its growing current accounts deficit on import-export transactions, and its forceful collection of vast monetary-financial influxes into highly speculative U.S. financial markets.

Through Anglo-American financier interest's control over the International Monetary Fund, the international monetary-financial system was rigged to such effect. The aggregation of financial power so organized, enabled the United States to subsist physically, and to posture as the world's great success which it was not, by increasing reliance on imports of relatively cheap goods from dependent nations of the world, thus filling the gap caused by the willful collapse within the agricultural and industrial sectors of the internal U.S. economy.

Try to find a Russian-produced good in a store in Moscow, today; or, with some relatively greater likelihood of success, a good actually produced in the U.S.A. being sold in a U.S. shopping mall! Thus, the evidence plainly available to any U.S. household visiting a U.S. shopping mall, has been, that the United States has been surviving as a nation through its role as an importer of last resort. The United States loots its national income as virtually tribute from abroad, and then spends some of that income to buy the cheap goods to replace what used to be produced by the U.S. labor-force. Thus, the United States became the market on which producing foreign nations depended for their financial income; so, the United States became the "lender of last resort" and is now on the verge of becoming the world's "bankrupt of last resort."

That is to emphasize, that, over a year ago, the U.S.A.'s position as an "importer of last resort"came near its end. Nations which depended upon this artificial, temporary U.S. role as a market for cheap-labor and related goods, are now suffering an accelerating collapse in their ability to balance their domestic budgets through exports. This involves both long-

FIGURE 1a
LaRouche's Typical Collapse Function

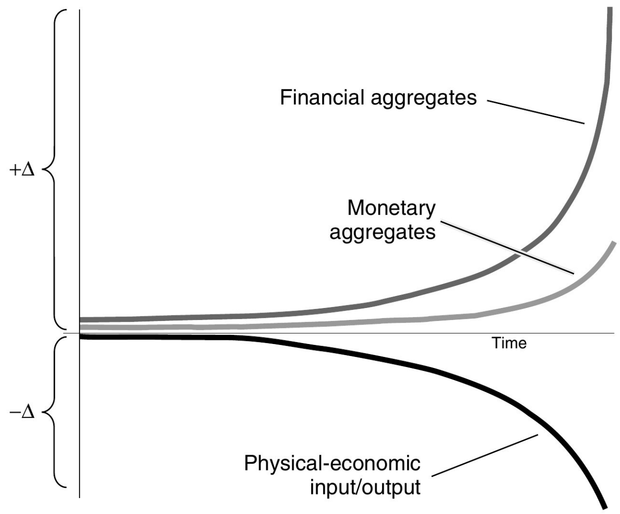
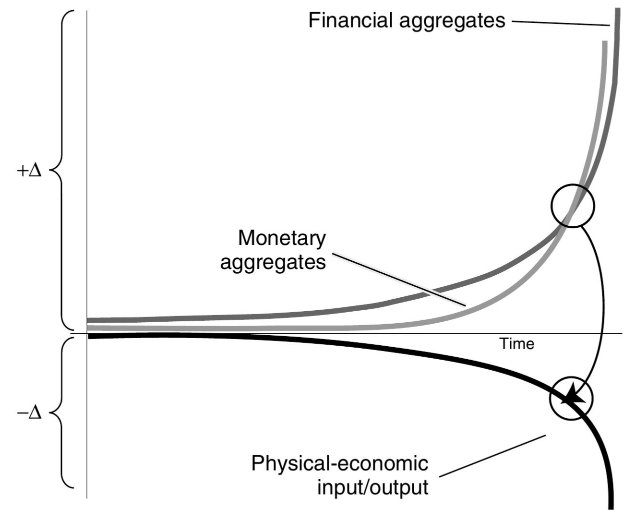


FIGURE 1b
The Collapse Reaches a Critical Point Of Instability



term and recent cyclical trends, both of which bear on showing the urgency of reversing the recent decades trends in "free trade" and "globalization" policies.

The immediate cause for this recent trend, is shown by studying the U.S. and world economies from the standpoint of my 1995 "Triple Curve" imagery (**Figure 1a**). Official statistics of governments, monetary agencies, and private groups are highly unreliable, but, allowing for the wide margin of outright fraud and wild error which are demonstrated to be typical of such reporting over the recent two decades, it is clear, that during the recent two years, a critical cross-over point was reached in the behavior of data as reflected in Triple Curve accounting. The United States reached the point, at which the amount of monetary output needed to sustain the nominal trading value of marketed financial assets had increased to the point that the monetary input required exceeded the financial roll-over effected (**Figure 1b**).

In a real economy, physical-economic stability and growth depend upon the generation of an adequate margin of new physical capital inputs from the existing production and circulation of goods. Under conditions of imposed "free trade," the margin of actually net capital formation becomes negative, as a result of driving prices down to levels at which true national-economic costs of production are not met. So-called "fiscal austerity" measures intended to bring financial accounts into balance through looting physical capital and human bodies alike, define the causes for the systemically cyclical, downward curve for real output in the Triple Curve imagery.

Therefore, to restore any of the relevant national economies, and the world economy as a whole, back toward physical-economic breakeven levels, will require a reversal of "free trade" measures generally, and also an utter obliteration of so-called "globalization" policies. If those changes are not made, no recovery from the present systemic collapse were possible.

This means the reinstallation of the kinds of protectionist policies characteristic of the American System of political-economy. The included objects, are to re-nationalize production, while building in a margin of net capital-formation into the production by national economies as entireties. The possibility of a systemic recovery, depends on generating that margin of capital-formation through production of, chiefly, physical goods. This margin of capital formation provides, in turn, the included basis for state creation of the fiat credit needed to finance the economic recovery.

I reference, once again, the report of Dr. Wilhelm Lautenbach to a 1931 secret meeting of the Friedrich List Society, as I have in some earlier locations. The use of methods of fiscal austerity to manage an economy in economic depression, is sheer lunacy. Fiscal austerity has the effect of idling productive resources, such as large portions of the labor-force and productive capacity. In other words, "fiscal austerity" under economically depressed conditions, destroys the very productive potentials by means of which the depression could be reversed! In any economic depression, the function of a sane and moral government is to provide the circumstances and stimulus under which idled productive potential is put to useful work. The mechanism for doing that is the directed use of state credit.

Had the Lautenbach report been adopted as Germany policy in 1931, Adolf Hitler would have never come to power in Germany.