

## **EIR**Feature

# Toward a New Bretton Woods

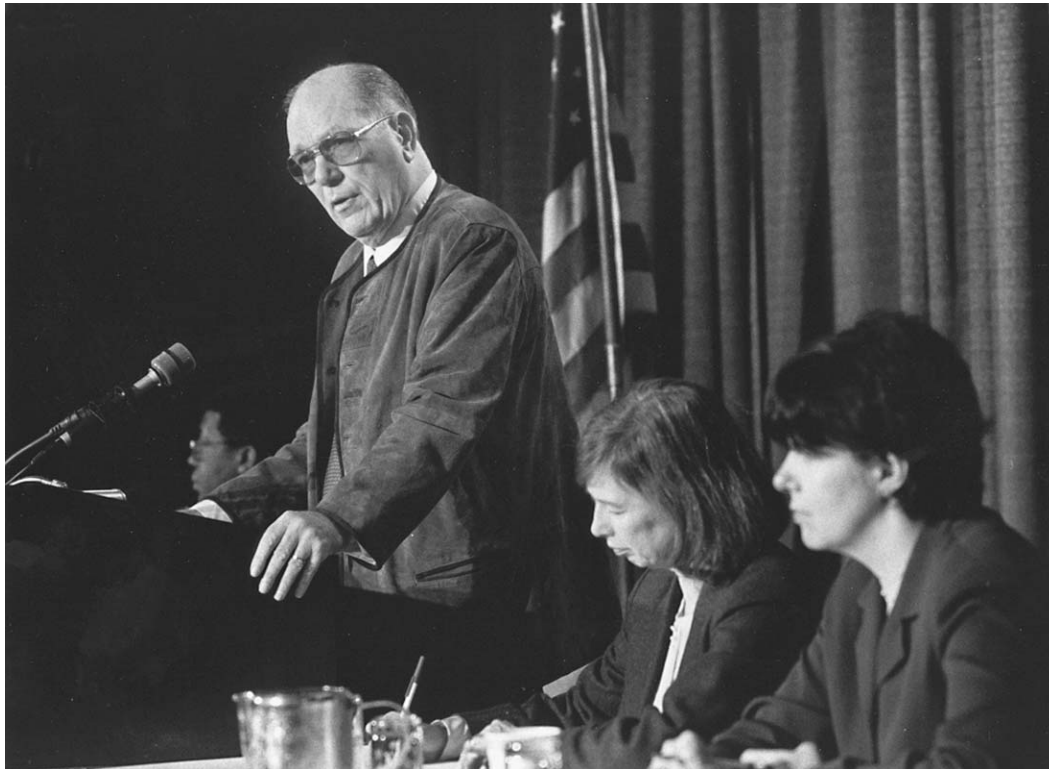
by Lyndon H. LaRouche, Jr.

*The following speech was delivered to an EIR seminar in Washington, D.C. on March 18, 1998.*

We are now past the Ides of March, the 15th of March. We have now entered into the onset of a new crisis which echoes, and is worse than, and will be worse than, anything experienced between the middle of October and the middle of January. At this time, what was called “the Asia crisis” by people who wished to put their heads under a barrel, which is really a global systemic financial and monetary crisis, will hit Europe with harsh force. We don’t know how harshly, but it will be harsh. And, it will hit the United States in a way which makes the stock market collapse of last year-end seem a very mild exercise, a rehearsal for what is about to occur.

For example, you have, in Germany, two processes going on. Germany is an export-oriented country. It can not exist, except with an export orientation, high-tech exports. Germany’s economy has two principal markets: one, the export markets into Asia, and, to some degree, the machine-tool industry in the United States, which is largely a subsidiary of German machine-tool manufacturing. You scrape a U.S. machine tool on the belly, and you will find “Made in Germany,” in some respects, there.

The second thing is the investment in global infrastructure. Now, Germany is hit, both by the fact that Southeast Asia and Asia are collapsing as markets, Germany’s most important customer, and, also, to some degree, France’s. At the same time, the insane attempt of Germany to meet the standard of the so-called Maastricht agreements, the so-called “Euro” agreements, is collapsing the internal economy of Germany at an accelerating rate, especially through the collapse of the infrastructure sector. That, in fact, Germany is in a situation, in which every cut in the budget made to bring the budget into Maastricht standards of balance, causes a collapse of the economy which shrinks the tax-revenue base by a larger degree than the cut in taxation. So, Germany is in the position of a snake trying to survive by eating its



*Lyndon LaRouche addresses EIR's seminar in Washington, D.C. on March 18. Seated, from left, are EIR editors Nancy Spannaus and Debra Hanania Freeman.*

tail: When the head gets to the head, that's the end.

The combination of this insanity of the Euro, and the panic in Asia, particularly in the new crisis, will hit all of Europe, since all of the European economy depends upon the German economy. Without a healthy German economy, there is no healthy economy in Europe. A collapse of the German economy, means a collapse of the economy of all Europe.

There are other crises. In Southeast Asia, look at metal consumption. The metals consumption in Southeast Asia, as a result of the last and ongoing crisis, is down by at least 30% from what it was before the crisis. In the case of Indonesia, the fourth-largest nation of the world in population, the collapse is down to about 50%. This means a collapse of markets. Nations which could export in Asia, are unable to export, even to markets to which they *could* export, because the local credit is not available to permit them to export, or to buy the resources they require to produce for export.

This means that a chain-reaction collapse of the world economy, coming out of East and Southeast Asia, is going to hit Europe very hard. When Europe is hit hard, already with the effects of the Asia crisis on the West Coast of the United States economy, you're going to find the collapse of the U.S. economy is going to take off in a way which no one, perhaps, on Capitol Hill is willing to acknowledge as a possibility.

This crisis has begun. We are now approaching the end of the first quarter of the calendar year. In Japan and elsewhere, there is a great scramble to cover their rear ends, financially, by fixing the books, as they have to fix the books

as the end of an accounting period approaches. This is going to cause a crisis. This can be the detonator for the crisis. In general, in Europe, in Switzerland and elsewhere, we have agreed for some period of time, that this period, the end of March, is the dangerous period at which we can expect the detonator to blow the system out again: this time a much more severe crisis than anything experienced back at the end of the year, a crisis whose reverberating effects on the world economy, particularly in Europe and the United States, will be much greater.

In the meantime, what is being done to manage the last crisis, is clinical insanity. By "clinical insanity," I refer you to the Versailles agreements, which a famous fellow, Keynes, described at the time in a paper called "The Economic Consequences of the Peace," which, considering that Keynes was a very bad economist, was a very prophetic piece of work. The most direct result of the Versailles agreements was the 1921-1923 hyperinflationary crisis in Weimar Germany, a crisis which could have caused a chain reaction, blowing out the entire world economy at that time. The reason that Germany did not blow up altogether, was that the United States, which was then the world's principal creditor nation, stepped in with what was called the Dawes Plan, which we created by credit agreements. Germany held its breath for a while, until the reserves came in. The crisis abated somewhat, and then the United States bailed out the Reichsmark, and Germany was able to continue.

But notably, politically, at the same time that the Weimar

hyperinflationary crisis reached its peak in the autumn of 1923, we had the first appearance, under the sponsorship of General Ludendorff, of Adolf Hitler, as a new political figure on the European scene.

### **The IMF, arbiter of a new Versailles**

Today, what is happening in Japan, and in the New York Federal Reserve System, is a piece of insanity, precisely like that against which Keynes warned in the Versailles Treaty. We are back to Versailles. The arbiter of the new Versailles, is a group of lunatics called the IMF bureaucracy. Here we have countries which are in trouble, where their economies are collapsing. The IMF comes in and says, "What you must do, is pay these creditors by shutting down your economy." That was what they said in Korea, that is what they said in Indonesia, that is what they said in Malaysia, that is what they said in the Philippines, that is what they said in Thailand.

That is what they said in Korea. Korean unemployment is past the 1 million level, which is already potentially a social crisis level. Under these conditions, *none of these economies can ever recover*. None. *This is clinical insanity*. You can not find any basis, and I shall indicate today some of the reasons for this—you can not find any basis under which financial reorganization of the type proposed by the IMF and accepted by most nations, can succeed. These kinds of proposals are simply the insanity of Versailles, re-enacted many times over.

And in the United States, we're pumping up a balloon, in terms of the financial markets, through what? Through hyperinflationary methods. The printing of money, to steer it into financial markets, where it is heavily financially leveraged, and thus results in an ascending balloon, in terms of the stock market prices, which creates the spectacle of a man clinging to a balloon without a carriage, and without an oxygen flask, reaching the 60,000-foot level and going higher. He's going to suffocate and die, if the balloon doesn't explode. And that's what we're doing.

*There is no recovery in the United States. There never was a recovery from the levels of the crisis of last year.* But, many people wishfully wish to believe that. Many people in the Congress, many illiterates in the Congress—which is what we seem to be tending toward among the younger generation there these days, people who no longer have, a Congress that no longer has institutional memory, because the people who got into the Congress as young people, *never studied history*. Most of them who got into the Congress, they'd never had a passport before they got into the Congress. They don't know the outside world exists. They don't know the United States existed before they were born. They're not even sure they were born, and they don't want to discuss it. You ask 'em, "Were you born?" and they say, "Don't go there."

So, that's the crisis. Under these conditions, as I shall refer to this matter in a number of points here, under these conditions, there is no government in the world, presently, while some of them have good ideas in particular, there is no

government in the world which has a plan of action, a policy under which that nation, or the world community, could survive.

We are now going into this new crisis, which will occur this spring. Whether this will be the crisis that blows the system out entirely or not, we don't know. There are too many unknowns in the short term, in a crisis like this, to predict exact dates. But, *we are in the spectrum of a succession of crises, in which one of these crises, probably in 1998, will blow out the entire system, unless we fundamentally, radically change the rules of the game, from the bottom up, of the whole system, in the meantime.*

The meetings which are to be held here in Washington, during mid-April, and a few other conferences scheduled in the same period, must be treated by any serious statesman as *probably the last opportunity, to prevent this planet entirely from collapsing into a New Dark Age like that which struck Europe during the middle of the Fourteenth Century*, after a century or almost 100 years of moral and cultural and economic decline of Europe, since the death of Friedrich II Hohenstaufen, until the bankruptcy of the House of Bardi and Peruzzi, in which Europe was struck by a New Dark Age, during which 30%, at least, of the population of Europe was exterminated by the economic crisis and disease; in which, over the 100 years since Frederick II, 50% of the parishes of Europe disappeared, as a result of these measures; in which

## **Renew call to Clinton for Bretton Woods conference**

*At the March 18 EIR seminar, Schiller Institute Chairman Helga Zepp-LaRouche and Ukrainian Member of Parliament Natalya Vitrenko renewed their call to President Clinton to convoke a conference that would establish a New Bretton Woods System, which they initiated in February 1997. The title of their new statement is: "Renewed Urgent Appeal to President Clinton to Convoke a Conference for a New Bretton Woods System."*

Almost exactly a year ago, we appealed to you, in view of the danger of a pressing systemic crisis, to initiate a reorganization of the world monetary and financial system, and to orient yourself toward the better elements of the previous Bretton Woods System.

In the meantime, this call has been signed by approximately 500 parliamentarians from 40 countries, the former Presidents of Mexico, Brazil, and Uganda—José López Portillo, João Baptista Figueiredo, and Godfrey Binaisa—and hundreds of civil rights leaders, trade unionists, and

insanity roved the streets, as it tends to rove the streets of the United States today; out of which we survived, because we got a Renaissance in the following century.

*We are now headed toward such a New Dark Age, coming out of the collapse of this banking system, just as Europe was plunged into a New Dark Age, by the detonator effect of the collapse of the Lombard banking system in the middle of the Fourteenth Century.* That's what we face. And there seems to be, at this moment, not a government on this planet, which has mustered the competence and will, to address the severity of the nature of this situation, with competent proposals.

Now, in reviewing this situation — and I shall limit myself for the presentation to the summary features of the problem — I shall make use of something which will appear, not in this week's issue of *EIR*, but in the next one. We've received, sometime past, a paper from an acquaintance of mine, you might say a friend of mine, a Dr. Sergei Glazyev, who is a brilliant young Russian economist, a man who reflects, if not entirely incorporates, the thinking of the leading circle of the scientific circle of economic thinkers in Russia. His teacher was Academician Dmitri Lvov, of the Central Economic Mathematical Institute. I know his acquaintances, his background: He does reflect the thinking of this layer. He's probably one of the most competent exponents, in terms of a young exponent who covers the spectrum.

So, we're publishing his paper, on the new measures pro-

posed to take a Russia on the brink of doom: those measures which would revive the Russian economy. And so, I've published a commentary to that, a prefatory commentary, on the implications of Dr. Glazyev's paper, which will be published in next week's *EIR*.<sup>1</sup> And, since the introduction to that contains the same material which is relevant here, I shall quote myself, so to speak, in part, from the beginning of that commentary, as follows:

### Three leading topics

"The world is waiting for the outcome of the 22-nation, Washington (Willard Group) conference on international and financial and monetary matters, now scheduled for April 16. All rational participants in the preparation and conduct of that conference should agree, that there are three leading topics of interrelated financial, monetary, and economic policy-shaping, topics which must be considered as crucial for a true solution to that global, systemic crisis, the which has pushed the world to the present brink of a threatened, sudden plunge into a global New Dark Age.

"First, the fact that the present crisis is *global and systemic*, rather than *regional* or *cyclical*, must be acknowledged. This acknowledgment is the required premise for any rational

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1. In this issue, pp. 53-63.

members of other social organizations, all of whom are motivated by deep concern over the fate of their nations.

At that time, we warned about the outbreak of an impending severe financial crisis, which would erupt in East Asia, but soon will extend to the whole world. The Asia crisis which broke out in October 1997, which is really only the regional expression of the global crisis, has shown how correct the warning expressed in the appeal a year ago was: The International financial system has been poised at the brink of meltdown repeatedly since the end of 1997, for example, on Dec. 22-23, 1997 in South Korea, and again, in January 1998, in Indonesia and Japan. In the meantime, it has been confirmed that neither the medicine of the "IMF rescue packages" nor the hyperinflationary infusions of liquidity are solving the problem, but, to the contrary, only reinforce the distortions of the "bubble economy."

The conference of 22 nations, which the United States has called for in Washington on April 16, is perhaps the last chance to carry out the necessary reorganizations safely, before the next expected, even more disastrous round of financial crisis. As useful as the elements of the discussed corrections (fixed exchange rates, greater transparency of financial transactions, a tax on speculation) might be, the

crisis of civilization in which the world finds itself, cannot be eliminated with cosmetic measures alone.

If the conference for a new Bretton Woods is going to be successful, then the fundamental mistakes in economic and financial policy of the past 30 years must be corrected, mistakes under which worldwide industrial and agricultural capacities have been allowed to collapse far below the level necessary to sufficiently provide for all the people living in the world today. Only if the world economy is organized along the principles of physical economy represented by Lyndon LaRouche — that is, if the construction of the Eurasian Land-Bridge becomes the cornerstone of a global reconstruction program, and thus scientific and technological progress again becomes the chief economic engine — can the real causes of the crisis be eliminated. It is urgently necessary to step up physical production, and to expand and modernize the productive infrastructure of all nations.

The only alternative to worldwide chaos is the immediate realization of a just, new world economic order. We appeal anew to you, President Clinton, to throw the constitutional authority of your office and the anti-colonial tradition of America into the balance, to avert unimaginable harm for billions of people.

discussion of policy to follow. Within those bounds, those recent decades' institutionalized changes in policy, which are responsible for a three-decades build-up of the present crisis, especially since August 1971, must be identified, and entirely removed."

That is, the policy changes, the relevant policies made since approximately 1966-1967, in the policies of the U.S. government and the British government, the policies which came expressed by the 1967 collapse of the British pound sterling, the ensuing disorders in the dollar, the first step of collapse of the Bretton Woods System in March 1968, and then the collapse of the whole Bretton Woods System in August, mid-August 1971, that the changes which have come in that process and out of that process, are the cause of what is today a *global systemic crisis*. It is not a cyclical crisis, it is not a business cycle crisis, nor is it regional. It is global. The entire system has destroyed itself, and the unravelling, which has taken over three decades, has now brought us to the end point, to the boundary conditions of extreme turbulence, as many boundary layers tend to be, in which we either *eliminate* those policy changes which were popularized and institutionalized during the past three decades, *or this world is not going to make it, in its present form*.

Nothing less than radical excision of those institutionalized practices which are now generally accepted, will suffice to halt this crisis.

Second, 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 through the concerted actions of a key initiating group of governments. This must be done in the manner of a reorganization in bankruptcy, conducted under the authority not of international institutions, but of *sovereign governments*. The acceptable model for the reorganized international monetary and financial system, is the incontestably superior successful functioning of the old Bretton Woods System of the pre-1958-1959 1950s, over anything existing since those axiomatic changes in direction of policy-shaping which were introduced by the United Kingdom and the United States, during the period 1966-1972.

The required measures include:

- a) periodically fixed exchange values of national currencies;
- b) limited convertibilities, as may be required;
- c) exchange controls and capital controls;
- d) fostering of necessary protectionist measures in tariffs and trade regulations; and
- e) outlawing of the creation of markets which conduct financial speculation against targetted currencies.

Third, as measured in physical instead of the usual monetary terms, the world's economy is presently functioning at levels of *negative free energy*, which are presently far below a breakeven point. The current levels of net physical output *are insufficient* to prevent the existing populations and econo-

mies from continuing to collapse into a spiral of accelerating general physical-economic contraction, and ultimate physical collapse.

Unless this shortfall in per-capita physical output is reversed and soon eliminated, no financial and monetary system, however otherwise sound in design, could function. No mere medication could save a man who is being starved to death. There is no financial and monetary system which could possibly succeed, unless it were accompanied by a general program of forced-draft physical-economic recovery, a program which must rapidly approach and reach the levels of sustainable, positive free-energy ratios. This means a recovery analogous in important respects to the Franklin Delano Roosevelt recovery in the United States, and on a global scale.

### **Franklin Roosevelt returned to the American System**

Remember, in March 1933, in the First Inaugural Address of President Roosevelt, he announced the fact that the United States and the world were in a crisis, a deep, severe crisis, and that he was prepared to take drastic measures to address the issues of this crisis. He said that if the Congress would not act, that *he, as President, would act, in order to save the United States, and rescue it from this crisis*. And he did that.

Now, he didn't do it blindly. Roosevelt, as I'll refer to this again later, Roosevelt announced his general direction of thinking, in a paper published in 1928, in *Foreign Affairs*, the journal of the New York Council on Foreign Relations, in which he announced, in diplomatic terms, in a sense, a complete break with the idiotic and criminal policies of his predecessors, Theodore Roosevelt and Woodrow Wilson, toward the nations of Ibero-America, and other nations, but focussed on Ibero-America: that we must not become a debt collector. We must show a decent respect for the opinion of mankind, the common opinion of mankind. We must *help* nations.

We must not allow the sharks of Wall Street, who didn't like Roosevelt too much, just as the *Wall Street Journal* doesn't like me, or doesn't like Clinton today; we must not allow these people to continue the kinds of policies which were enforced in this country, and forced upon this country under evil Presidents, such as Theodore Roosevelt, and, in 1915, the re-founder of the Ku Klux Klan, directly from the White House, Woodrow Wilson, who was responsible, as President, for launching the second incarnation of the Ku Klux Klan in the United States, which reached the level of over 5% of the U.S. adult population during the 1920s. And Woodrow Wilson was the ideologue from the White House who did that. The man was no good.

We had a President during the 1920s, Calvin Coolidge, who was no better. Worst of all, we had a Secretary of the Treasury, Andrew Mellon, who was worse. Hoover didn't cause the Depression: Andrew Mellon and Coolidge did, helped by Woodrow Wilson.

So, Franklin Roosevelt rejected this degeneration of our

policy, and returned to the American System, as expressed, typically, by what Lincoln and Henry Carey, the leading economist of the mid-Nineteenth Century, did between 1861 and 1876, as reflected in the 1876 Centennial Exposition at Philadelphia, at which point, during the period 1861 to 1876, the United States had become the world's most powerful economy, and the economy which was technologically the most advanced in the world.

### The only successful economic model

This model, on the basis of the 1876 exposition, was the basis for the industrialization of Japan, which used the American model to build an economy in the Japan system. This was copied immediately by our friends in Germany, typified by Siemens, and by Emil Rathenau, whose son was Walther Rathenau. They copied the American System, as identified by the 1861-1876 revolution in economy launched by Lincoln, on the advice of Henry C. Carey.

This model was also used by Russia, which was our ally against Britain and the Confederacy during the time of the Civil War: Russia as represented by Tsar Alexander II, as represented by the great chemist Dmitri Mendeleev, who was at the 1876 Exposition, and who became the great railroad

builder of Russia, and the great industrializer of Russia, and carried the American System, as far as he could get by with it, into Russia, successfully under Alexander II, not so successfully under his successors.

The same policy, the American System policy of Mendeleev, was also the policy of Count Sergei Witte, the Foreign Minister, Finance Minister, and, also, Prime Minister, briefly, of Russia, who was a specialist in the writings of an American System economist of German extraction, Friedrich List.

*Every successful model of national economy* which emerged in the late Nineteenth Century and the Twentieth Century on this planet, was based on the model of the American System, not merely of Hamilton and Franklin, or John Quincy Adams, but on the specific form of that model developed by Abraham Lincoln and Henry Carey during the period between 1861 and 1876. That is the American System.

That is the legacy, economic policy legacy, of the United States, a continuation of the legacy of Franklin, a continuation of the legacy of the Washington-Hamilton administration. This is what distinguished the United States, which made it great. We were the only nation on this planet, which constitutionally actually believed that *every man and woman is made in the image of the Creator*, and that the responsibility of

## A greeting from Mexico

*The message excerpted here was sent to the EIR seminar in Washington by Julio Zamora Batiz of Mexico, a former congressman, former ambassador, and former president of the League of Revolutionary Economists, of the ruling Revolutionary Institutional Party (PRI).*

Twenty years ago, in debating in the Chamber of Deputies the first letter of intent which Mexico signed with the IMF, I pointed out that the prescriptions of that body had never resolved a country's problems. The crises which we have suffered since then, those that the world faces today, confirm that monetarism is not the right policy for the world economy to grow and respond to the needs of the population.

Globalization inevitably generates serious social conflict inside every country. . . .

Workers are exploited by being paid a lower real wage for higher productivity; rural producers are subjected to inequitable market conditions; long-traditional social benefits which millions of people still require, are suppressed for financial reasons; thousands of small and medium-size businesses are sacrificed on the altar of efficiency; deregulation

and privatization are carried out to benefit the powerful. As a consequence of all these socio-economic sins, income distribution worsens: the rich are vulgarly so; the poor are so to the point of hunger. . . .

All over the world, IMF prescriptions have led to closing of businesses, loss of jobs, reduction of physical production, inflation, smaller real wages, increases in the foreign debt and inequitable income distribution. Governments lack the resources to carry out infrastructure projects which are essential for the economy to produce.

In reality, the IMF works to benefit international speculators, multinational companies, and local big business interests. The conditions of the people, their future, have no importance in a system which has exhausted its possibilities.

It is, thus, essential that international economic relations be restructured, that the international bodies which influence decisions be reconceived, that a plan be devised in which the goal is to achieve the well-being of human beings, and not the profit of capitalists.

The meeting of 22 nations called by President Clinton for April, must be oriented in that direction. I am sure that the views which come out of the *EIR* seminar, and the ideas of Lyndon LaRouche—which are original, and generate new concepts and new approaches—will be a fundamental part of the debate over the new economic international order which the world requires.

society is a *commitment to every man and woman, and to every child, to provide those conditions and opportunities, which are consistent with the dignity of a personality born as made in the image of the Creator.*

The only nation on this planet which adopted that as a constitutional principle of government, self-government, the American System of political-economy, was based on that principle. It was an effort to find a mode of economic life, as well as of political life, which was decent, from the standpoint of this obligation: to recognize the sacredness of the individual life, not merely as some kind of animal, but as a creature endowed with the creative power to make and to utilize fundamental discoveries of principle, of physical principle, and also to use, in a similar way, the fundamental discoveries of artistic principle, and the lessons of history.

*This was our unique genius*, at least among the best of us. And, this model of economy by that great President, Lincoln, who understood and enforced that constitutional principle, was what made us great. And, every nation whose people aspire to have the kinds of benefits which they saw in us, tried to copy that model, or at least assimilate its lessons into their particular institutions, as the President of China says that his

reform is with “Chinese characteristics,” but that China is perfectly happy to accept anything good it can use from the United States.

### **Those who lack the will to act, get out of the way**

So, we’ve come to a time where we need a new Roosevelt. I’ll come back to this again. That kind of decision, not the kind of shilly-shallying decisions we get from politicians today.

To what I’ve said, there’s an obvious objection to be expected from most critics. The customary objection will be, that such a sudden and radical approach is “politically impossible.” Perhaps those critics are right. Perhaps it will prove impossible politically to find a significant number of governments willing to push through such radical measures in a short-term period. *If* those critics are right on that point, *then civilization will not live out the present century in its present form.* *If* those critics are right, then the first generations of the coming century, will experience a planet-wide New Dark Age, a catastrophe on a global scale like that which Europe experienced during the middle of the Fourteenth Century.

I would therefore respond to such critics, with the follow-

## **International press: Listen to LaRouche!**

*From a column by José Neme Salum, in the Mexico City daily Excelsior, March 16:*

Mexico’s Congress should send a commission to Washington, to hear Lyndon LaRouche speak on March 18, writes Neme Salum in his weekly financial column. He also reports George Soros’s call for a return of open British imperial rule (reported elsewhere in this issue), as against those who are discussing the creation of a New Bretton Woods system.

“It is in this context,” he writes, “that the necessity becomes clear, that instead of spending thousands of dollars on useless trips by Congressmen — such as that taken by Muñoz Ledo or the one planned for the 17th for an OECD event — the Mexican Congress name a commission for the purpose of attending the seminar which *EIR* will hold in Washington, D.C. on March 18, with U.S. economist Lyndon H. LaRouche. He will explain to attendees, whether these be diplomats or semi-diplomats of various governments, ‘exactly what must be done so that when the meeting of the 22 nations occurs in April,’ ” there exists at least some sort of quorum ready to take the actions required.

*From a commentary by Juan Liscano, in the Venezuelan daily El Nacional, March 17:*

Liscano, a member of Fundapatria, a nationalist group formed to stop the privatization of Venezuela’s state oil company, Petroleos de Venezuela, poses the basic conflict in the world today as between those of Lord William Rees-Mogg’s outlook, and those of Lyndon LaRouche’s outlook.

Communism fell because of materialism, which is also crushing the capitalism of today, writes Liscano. Soon, this capitalism will “suffer the market crash which many foresee,” and which drives the campaign against the oligarchical New Order being waged by Lyndon LaRouche, “a U.S. Democrat of the Roosevelt era.”

*EIR*’s headlines speak for themselves, he writes: “The IMF Is the Cause, Not the Cure of the Financial Crisis,” “To Save Nations, Bankrupt the Speculators,” “The Great Fraud Which London Calls Privatization.”

“For years now, LaRouche awakens the American conscience with his just campaign,” as London and Wall Street’s drive for globalization wipes out national sovereignty, and reduces human labor to robot status, under Lord Rees-Mogg’s philosophy that 5% shall rule over 95% of mankind. “The alternative will be a reverse march, and a revision of the policies of the New Order, as demanded by LaRouche and his people, as desired by the many, although dispersed, declared opponents of the current direction of world affairs.”

ing impassioned recommendation. I say to these critics, as President Franklin Roosevelt forewarned the Congress, during his First Inaugural: *Let those political leaders who lack the will to carry out the measures I have proposed, get out of the way, and pass the authority to act to those among us who are willing and able to enact these measures, and do so suddenly.*

The immediate future of this civilization, if it is to have an immediate future, lies in the hands of those who are willing to act with pungency and force, along the lines I've indicated. That said, let us be optimists. Let us push the voices of those useless critics out of our minds, and concentrate on the actions which must be taken to avert the catastrophic economic collapse which now threatens to crush us all in the very near future.

There's an example of this in the case of the famous German strategist, von Schlieffen, Graf Alfred von Schlieffen, who was, until 1905, the Chief of Staff of the German military. In 1891, it was apparent to von Schlieffen that the efforts of the British to prevent the realization of what we might call the Land-Bridge program, that is, the extension of railway links across Eurasia, both to the Indian Ocean and to the Pacific, that the British determination was to crush Germany, and that Germany must expect that France would capitulate to Britain on this issue, and become a revanchist ally of Britain against Germany, and that Britain and France together, would mobilize Russia, through its pan-Slavic influences in its military and elsewhere, to become an ally of France and Britain, against Germany. They also took into account that Belgium would be a puppet of the British in conducting such a war.

Therefore, beginning 1891, von Schlieffen conducted a series of exercises among his staff, studies which were to plan the reaction of Germany, should such an attack, a simultaneous attack by France, and Britain, and Russia, occur. This became known, in due course, as the Schlieffen Plan.

Had the Schlieffen Plan been executed when the British, French, and Russians did launch war against Germany, for geopolitical reasons, then France would have, and the British Expeditionary Force, would have been crushed in the opening weeks of the conflict, by the hammer of the right flanking movement from the north.

However, von Schlieffen left office at the end of 1905, and was replaced by young Helmuth von Moltke, a man of weaker disposition, working for a timorous, weak-minded Kaiser. Remember, the Kaiser was a descendant of Queen Victoria. And Queen Victoria was like a cow who produces cows with weak feet; only in this case, the cows had weak minds. And, the Kaiser was one of these cases, as also was the Tsar of Russia, Nicholas. Their uncle, their common uncle, Uncle Albert, later called King Edward VII, played these two weak-minded relatives of his, like fools, and set them to destroying each other. Russia and Germany were both destroyed, and the kaisers of both countries were destroyed, by British manipulations organized by Edward VII.

The difference between von Schlieffen and von Moltke, under the influence of a weak-minded Kaiser, and other weak-minded types, was that von Schlieffen understood, as did Hannibal at Cannae, as did Alexander the Great outside Arbela, as other great commanders like Sherman, William T. Sherman, one of the greatest commanders in military history, understood, that *to win war, you must take risks. Those who try to minimize risk, lose wars.* The difference was that Schlieffen's plan concentrated Germany's limited resources on those points at which a decisive victory could be obtained. And, this was not an impulsive action, it was a thoroughly worked-out action. Whereas von Moltke took the Schlieffen Plan, and diluted it to cover all possible options, to minimize all risks.

Now, the weakness of the President, is exactly that kind of problem. The President is following in the pathway of doom, that of younger von Moltke, of trying to minimize his political risks, which will maximize the certainty of his defeat. Whereas, a leader is precisely a person—otherwise, we don't need leaders—who is able and willing to take the moral responsibility of risk. Not to take a reckless risk, but to take a risk *to win*, to turn the devil away. Whereas those who temporize, who try to be all things to all people, who try to find a consensus among the generals—

Let's take the case of Lazare Carnot, another great commander. In the early 1790s, France was invaded by armies of every other power in Europe. These armies were victorious on all fronts. The defeat and dismemberment of France were inevitable. At that point, the Jacobins appointed a man who was a great military scientist, as well as a physical scientist, Lazare Carnot, the man who invented the Machine-Tool Principle, among other things. They appointed Carnot to command the reorganization of the French army, and to direct it. Sort of like a Minister of Defense.

The thing he did: He fired major-generals in lots, in wholesale lots, and replaced them, in many cases, with sergeants, because one wouldn't go across the river at night, but would wait till morning; or keep the troops in the barracks, rather than moving them out into the field; would not make the assault when ordered; would temporize.

But, that wasn't the only thing he did. He also took a bigger risk. In two years, in his command of defense, together with his friends, such as his former teacher, Gaspard Monge, who later founded the Ecole Polytechnique, the genius, the scientific genius of France, such as survived, was mobilized to create a machine-tool industry around Paris and other locations, but chiefly Paris. And, in two years, Carnot revolutionized warfare, and turned certain defeat into absolute victory. Until Napoleon ruined the French instrument, there was no force in Europe which could defeat the French military system created by Lazare Carnot.

Every case in history, military history or political history, of a great crisis, requires leadership which will take risk. Not foolish risk, but necessary risk. And take precisely that risk



which is necessary to avoid a crushing catastrophe. Weak, incompetent leadership is that which will temporize, and say, “No, we can’t do that. We have to think about *this* first, we have to think about this group in the Congress, we have to think about this, our ally in Britain. We have to think about this, we have to think about that.” And such leadership, is the leadership of a nation which has doomed itself by such leadership. Leadership is not an unimportant thing. There’s a whole theory involved in that, the science of this.

### Post-industrial changes in axioms

Therefore, all rational discussion of these matters depends upon a clear understanding of the following point: The essential moral responsibility of the participants in these forthcoming and related proceedings, is their obligation to recognize that the mere fact that this is a global systemic crisis, rather than either a regional one, or merely a global cyclical crisis, is sufficient proof-of-principle evidence, that the causes for this crisis are the fundamental errors of judgment and practice embedded in those axiomatic changes in official and other thinking, about the subjects of economics, finance, and monetary policy, which have dominated international policy-shaping during, approximately, 30 years to date. These are those axiomatic changes, first introduced during the period 1966-1972, in the so-called cultural paradigm shift, which hit the so-called Vietnam Baby-Boomer generation. And, those changes in policy, away from a commitment to investment in scientific and technological progress, away from a commitment to infrastructure development, away from a commitment to exploration of outer space—we got to the Moon, and then we stopped. We haven’t been back there since. And the payoff, remember, the payoff on the aerospace project, the Kennedy acceleration of the aerospace project, the Kennedy crash program, was that we got back over 15¢ for every penny the government put into space exploration. At least 15¢, in terms of improvements in technology, in new designs, in new industries, in greater productivity, in a higher standard of living.

Under the influence, or the combined influence of the military forced draft technological driver of the postwar period, and the combined impact of the far superior measure of the Kennedy space program, this country reached the highest rate of growth in its history, since at least 1861-1876. And, along came the Baby Boomers on campus, and said, “*Shut it down!* Don’t invest in technology! Stop wasting money on infrastructure! Take the money back from the Moon, and bring it here!” It never got here, as many people can tell you.

Then we set a policy. Instead of basing an economy on performance, on what you produced, on those kinds of considerations, we based it on psychotherapy group discussions: “Well, how do you *feel*, Mrs. Jones?” We went into a touchy-feely psychotherapy mode, a politically correct mode. No longer was telling the truth important: It was *how somebody felt about what you said*, not what was the truth. We were no

longer concerned about justice; you were concerned about somebody looking at you cross-eyed.

We stopped being a people, and we became a slime mold. No longer were we a unified people, in which all people are equal. No; you have to be unequal. You have to have—if you’ve got an emotional problem, you need a support group. What’s your support group? We divided ourselves into a zoo, a collection of species called a Rainbow Coalition. No longer were people equal, no longer did people have equal rights to education, equal rights to medical care, equal rights to opportunity, equal rights to opinion, equal rights to truth, equal rights to justice. All that passed. Everything became a zoo. You feed this animal in this cage one thing, this animal in this cage another thing. Technological progress is bad for your health. Zero economic growth is good.

And, under the increasing impact of that kind of thinking, as it moved into political and other institutions of government, and society generally, every policy that was made, was shaped and adapted to fit these new criteria.

### Reality is asserting itself

This, now, is coming to an end. This began to come conspicuously to an end in the last year-end process. We saw a turn internationally—we saw it in Southeast Asia, for example. There’s a cultural paradigm shift now occurring in Southeast Asia, which was first led by the Prime Minister of Malaysia, Mahathir Bin Mohamad, which is now expressed in the movement around Habibie in Indonesia, which is expressed by the King of Thailand, as well as other Thai officials. “This garbage doesn’t work,” they say. “The IMF doesn’t work. This is a swindle, this is wrong. All these things which are politically correct, are wrong. They are destroying us. We want reality.”

You have, in the United States itself, the issue of HMOs. You have not only Democrats, but Republicans who are running for office, for election in November of this year, on the basis of being against HMOs, to bring them back under regulation, to end the free-trade system in medical care.

The issues of the American people today are becoming, more and more, bread on the table, meat on the table, conditions of life, safety in the school, a real education, not having a support group in place of a teacher. Less Ritalin and more knowledge. Those are the real issues, where people are rejecting, in the collapse of this self-discredited system, this self-discredited culture of the past 30 years, people are saying, “I would rather *live*, than be politically correct. I would rather have my children eat, than be politically correct. I would rather have my children not stupid, than politically correct.” Reality is asserting itself.

However, unfortunately, the people who went through the institutions, out of universities from the 1966-1972 interval, are now occupying the top positions in government, in business, in the media, in the professions. And thus, you have a sort of a psychological interest group occupying the top

positions of power, along with Generation Xers, who don't know anything, because they never studied history. They weren't allowed to! They never got it in the school system. We destroyed the history instruction. People passed tests, because the questions were more stupid. We have a sliding scale, the bell curve, which runs the testing section, and everybody's doing better on the bell curve. If everybody becomes more stupid, everybody does better. If you have a few intelligent people, you've killed the bell curve, and then people seem more stupid.

So, if everybody is stupid, then you can produce statistics based on test scores which show there's an improvement in education. You put five intelligent people into a classroom with the typical stupid people, and suddenly, you shift the bell curve, and they begin to flunk. So the absence of intelligent people coming out of the school system, results in test scores which show an improvement, when they're actually becoming more stupid. It's a swindle.

So, you have an entrenched interest in trying to defend the illusion of the Golden Generation, which is not "golden" at all. That stuff on the top there, on the head, was not gold, that was clay. We talk about giants with feet of clay; then, we've got the other types, giants with heads of clay.

### Return to performance standards

So, this is the problem that we have to face. You have to go back to performance. The question is not what is politically correct. The question is: What is necessary, so that people can survive, so that nations can survive? Who cares about the IMF? Indonesia represents the fourth-largest nation on the earth, in terms of population. You want to kill it? *Who cares what the IMF thinks?* Those bunch of guys, they can flip hamburgers for a living, if they have to. (I wouldn't trust them at it, but I'd let them do it.)

What about the whole of Asia? Asia is what? East Asia, Southeast Asia, South Asia: What's that? That's the majority of the human race! The archipelago, South Asia, China: That's the majority of the human race. And, what are we doing to the majority of the human race by these IMF conditionalities, and this Soros nonsense, and these things we are allowing? *We are murdering them, just as much as Hitler murdered people in slave-labor camps.*

We are turning entire nations into slave-labor camps. We are destroying the standard of living. We are increasing the morbidity.

Look at the collapse, in terms of life expectancy, in Russia, under the reforms. Life expectancy has collapsed, by more than 15 years. The sickness rate, the death rate: We are getting an epidemic of new kinds of diseases, and old ones, spreading around the world. Don't talk about chemical warfare, biological warfare; we're already running biological warfare: it's called the IMF. IMF conditionalities will kill more people than any chemist in a biological warfare laboratory, simply by taking people out of food, out of sanitation, and the other

things which are necessary for an enhanced life expectancy. And, the education which enables them to function more sanely.

The discussion, therefore, in these conferences, must contrast the generally downward trends of the 1966-1997 period, with the upward trends which were predominant during the great postwar recovery of 1946-1966. In face of that evidence, the notion that the present international system of free trade, floating exchange rates, and globalization, should be saved by a few added reforms, must be regarded as a wishful delusion, common to those who are not yet prepared to face the reality which already grips this planet.

Those present financial and monetary policies, of a floating exchange rate system, are not institutions to be rescued. They are the *disease* to be expunged. *Unless these policies are radically excised, the present economies and nations, will not outlive the passing of this present century.*

Now, in the current [March 20] issue of *EIR*, we have a reference to two tracks of policy. One track is Franklin Roosevelt's policy, the policy under which the U.S. recovery and the postwar plans of Roosevelt were based. The second one, is a paper written by a Dr. Wilhelm Lautenbach, presented at a secret conference in Germany of the Friedrich List Society in 1931. And Lautenbach said a number of things in that paper, which should be read by everyone in Washington

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today; if they don't read it, you should kick them out of office, because they're not to be turned loose under these circumstances. They're like firebugs: You don't want 'em in the neighborhood.

He said the idea of cutting of production to stabilize financial systems, is the worst idiocy you can imagine. The trick in a crisis is to mobilize credit *selectively*, in a dirigist mode, as Roosevelt did, and as every sane leader did in similar circumstances, to focus credit on getting people off the unemployment rolls into productive work; to foster investment in basic economic infrastructure; to absorb the unemployed in useful work; to foster investment in technologically progressive industries and other projects, which will raise the average productivity of labor; and to starve—not to starve the economy to save the financial system, but to starve the private financial system to save the economy. Which is why Roosevelt was not popular with the Wall Street bankers back during the 1930s, or later. They never forgave him.

And that's a recovery policy. There was thinking in that direction around the world; it's traditional American thinking, as opposed to the garbage that's become popular, the free-trade garbage, the insanity which has hit the economics profession in the past 30 years. That was traditional American policy, as I said earlier. Lautenbach, who reflects, of course, the influence of Friedrich List and people like that in Germany, reflects also something else.

### **The exceptional importance of the United States**

Get back to this question of, what is the United States? *This is a very important nation.* There is no nation on this planet which is as important as the United States, for the world as a whole. We may not look like that now; we may not be living up to that now; but that is our heritage, and all of the great leaders of the United States, in which Roosevelt can be included, proceeded from an understanding of that heritage.

We are essentially a European nation. We are a nation of the European Fifteenth-Century Renaissance. We are a nation which is born, in a sense, of a long struggle in Western Christian civilization, to perfect a form of society which is consistent with the proposition that all persons, men and women, are created in the image of God. And, therefore, we cannot tolerate a system in which some people, even the majority of people, live as human cattle under the rule of an oligarchy. That the mass of people should not live as human cattle, for the benefit of a ruling minority and oligarchy, whether a landed aristocracy, a state bureaucracy, as in ancient Babylon, Akkadia, or, a financier aristocracy, such as that of Venice, or London today. That it is not right that human beings, who should live in the dignity that should be accorded to people created in the image of God, that such people should be reduced to human cattle, for the benefit of those who belong to these classes of state bureaucracy, financier oligarchy, or landed aristocracy.

The object was to create such a form of society, a society consistent with this image of the nature of man, the intrinsic nature of man, man's ability that no animal has, that no monkey has—even Prince Philip, who professes to be a monkey, who claims to be a monkey—the ability to discover, and validate, a physical principle. The ability in the field of art, to take a similar contradiction, called a *metaphor*, and to adduce from that metaphor a new conception, a new principle, the principle of cognition, which governs improvement in the way people relate to each other, in social relations; which, together with the study of history, from the standpoint of Classical art, informs our minds of the way in which society ought to be run: always for the single purpose to create a form of society which is consistent with the nature of man, as Western Christianity conceived man, as Christ conceived man. As Christianity, for the first time on this planet, established the principle that *all* persons, with no racial or ethnic distinctions, are equal in the respect, that they are made in the image of the Creator, by virtue of this power, which sets man apart from and above the beasts.

And, the object of society must be to take this nature of the individual, from birth, to nurture the development of that individual, in a way which is consistent with that: This is something made in the image of God; treat it accordingly! Develop it! Develop those powers which lie there. Give this creature an opportunity to perform *good*, to live as an angel, who came to this life, developed, did a good that was needed, like the Good Samaritan, and then wandered off, at the end of life, having been a necessary person, who came as an angel, did a good, and left. And, you said, "Wait for the next angel." And, to look at every child as potentially that kind of person, that kind of angel. And, to live in a society where we can regard one another in that way, and regard ourselves in that way.

That was the purpose.

Out of this great ferment in Europe, which had a long history, we came, in the Renaissance period, finally, to the beginnings of the modern nation-state, European nation-state. But, that was not entirely successful there, because, in Europe, the powers of the old oligarchy were still great, the landed aristocracy, and the Venetian and similar kinds of financier oligarchies. Parasites, sucking on the blood of humanity, with great power, determined to crush anybody who would take that power, that privilege, away from them. In Europe, that never succeeded. But, the greatest minds of Europe brought their ideas to the United States, where we, on this continent, with the strategic advantage of a distance from the long arm of the European oligarchy, were able to form a nation, a republic, which was committed to perfecting itself in the service of that principle. And, in that period, at the end of the Eighteenth Century, throughout Europe, all of the good people admired the United States, and looked at the American Revolution as the great liberating experience which they hoped would spread to Europe.

In the subsequent period, with many fits and starts, there were many reforms introduced into Europe, in the direction of creating nation-states there. Most of these were done in the sense of expansion of the parliamentary representation of the people, so you have parliamentary government in Europe, as a tradition which is really not overthrowing the old oligarchy, but making heavier demands upon it, demanding a greater degree of power-sharing.

As Britain, for example: The United Kingdom has no constitution! The United Kingdom is a pure empire. That is, there is only one constitutional law in the United Kingdom. First of all, the Act of Settlement, which put this northern branch of the House of Welf on the throne of England, where it sat, and sat, and sat to the present day, where the brains seep down to the rear end, to increase the sitting power. The second thing was a typical pagan, pantheonic institution, in which custom, social custom and religious custom, were managed by the monarchy, by the oligarchy. And the oligarchy was told, and the monarchy was told, "Don't offend custom too much." In the old days of empires, that could get an emperor killed; if he was very offensive to the customs of one of the subject peoples, or even offended the gods, as the Pantheon prescribed, he could be knocked off, as committing a crime. But there was no constitution, in the sense of a positive assertion of the nature of the human individual, a conception of the individual on which the construction of the whole society must be based, and to which the development and functioning of that society *must be accountable*.

That is our particular genius.

### **Clean out the corruption**

Therefore, under those circumstances, in the United States, some of the greatest ideas of Europe found soil in which to flourish. Not always, because we also adopted an oligarchy in the United States; we developed it out of the New England opium traders, who pushed opium on China, from India and Turkey, during the Nineteenth Century, as partners of the British East India Company in that "noble" drug-pushing traffic, and became wealthy and powerful, in New England and elsewhere, as a result of it.

We had Manhattan bankers, who, beginning with Aaron Burr, largely tended to be treasonous agents of the British Foreign Office, or the British banks, who have no particular record of patriotism, where the United States is concerned. (They are attracted to U.S. dollars, but not to U.S. souls.)

Then, we have the Southern slaveocracy, and people like John Crowe Ransom, and other people from Nashville, the Nashville Agrarians, who represent the same kind of oligarchical decadence, immorality, the stink of the mint julep-sipping backer—not a member, but a backer—of the Ku Klux Klan, sitting on a Nashville porch someplace, sucking mint juleps, whose opinion of people in this country is not too good.

Yes, we had the same affliction in our own country. We had corruption; we have corruption today. Many parts of the

permanent bureaucracy of our government are corrupt. The Criminal Division of the Justice Department is a monstrous cesspool of corruption, which ought to be cleaned out. Some of us thought that maybe Janet Reno was going to clean that mess out, but she became a prey of that, rather than its expunger. The same bunch of filth is actually running behind this idiot Kenneth Starr—I don't think he could even read a law book rightside up. But the people behind him—like Hickman Ewing, a notorious racist, who is typical of the Justice Department mafia which is controlled by the oligarchical wealthy families, not by the people—should be cleaned out, so that we have a Justice Department which is dedicated to justice, not the interests of Wall Street, and particular families on Wall Street.

We have corruption throughout our government, largely embodied in permanent bureaucracies which are not controlled by elected officials. You elect a President: He doesn't control the Executive branch. The permanent bureaucracies largely control the Executive branch, as in the Justice Department, the Treasury Department, the State Department, and so forth and so on. As the people complain, we are ruled by a bunch of bureaucrats. What the American citizen recognizes from experience, the thing he or she hates the most, is these blasted bureaucrats! Not as an individual, but he recognizes that there is a slime-mold-like institution, called bureaucracy, which invades his life and destroys it, and destroys the life of his community, and strikes terror in the population. These are like the lackeys, the hired lackeys in livery, of the old lackeydom of feudal empire, the ones who ran around with the clubs at night and killed people, who did the dirty work for the ruling landed and financial aristocracies.

And, that's what we have in many parts of our government, many parts of our society. We have this corruption.

### **The issue of leadership**

And, generally in our history, it's only in a period of crisis that we in the United States, as in most other cases, have come back to ourselves. The greatest examples of that—the greatest of all, was that of Abraham Lincoln, without doubt the greatest President, one of the greatest intellects, we ever had in high office in the United States, despite the rumors and slanders against him. Look at his work, read his writings, as I have, look at his work in that light. This man was a great, gifted, noble genius, rarely found, and often killed, when found.

Franklin Roosevelt was a much lesser man than Lincoln, but in his time, like an angel, he served his purpose for our nation. He recognized our heritage, at least in part, and acted upon that with pungency and force, despite the Congress, and despite opposition. He was a President who, had he lived, would have transformed this world, as he threatened Churchill with doing, to eliminate empires, to shut down, immediately, at the close of the war, the British, French, Dutch, and Portuguese empires. To give the people of each of these former colonies the right to their independence, and to give them also

the right to free access to the same kinds of economic and technological advantages, for their own use, which we prize for ourselves. And to cooperate with them, in this great venture.

That didn't happen. In the spring of 1945, Roosevelt died. And lesser men, much lesser men, came into power: the friends of Harriman, the friends of Teddy Roosevelt, like Stimson, for example, who was a stooge of Teddy Roosevelt in the former period, the beginning of the century. That kind of person. They took over. We went in the wrong direction, away from Roosevelt's direction.

Kennedy, when he came into office, made some effort to try to turn things back in that direction. They got rid of him. Johnson was scared. I don't think Johnson was as bad as people think he was; the two civil rights bills he enacted, although under considerable pressure, nevertheless attest to a man who had a conscience, but a man who was convinced that he, too, could be shot, just as his predecessor had been before him. And, who got out of office, when the pressure got too great.

After that, we had essentially nothing. Reagan was relatively the best, but we all know his weaknesses. And now, we have this President, with his weaknesses.

But, you know, they say, "God works in mysterious ways;" and, sometimes, you can take a weaker man, like a

Clinton, a man who's a Baby Boomer, who has many of the faults of his generation: a tendency to waffle, a tendency to minimize risk, which is better known as waffling. Vacillating. Crying at the fact, "I have to do this" to somebody. Take a man of minimal, or limited capabilities, like a Clinton—who is not intellectually a bad person; he's probably intellectually good as any man since Kennedy who has occupied that office, just with these peculiarities of his generation. And somebody has to touch him, and say, "You must become this."

### People will rise to the occasion

Those of us who went through military experience, particularly some experience in *training* raw recruits, have a sense of this. Or other experiences may give you the same sense. Someone comes into a position for which they are ill-prepared, and someone says, "You're going to become a soldier." And they become a soldier. "You're going to adopt a vocation." And they adopt a vocation, and serve it at least with good conscience, and sometimes well. It's the nature of man, that you can call people from obscure, or improbable circumstances, and find that they will rise to the occasion, like the person who suddenly acts as a hero, in a fire in a theater, or something else. Persons rise to the occasion. And, one would hope that we could touch this President, and that he would rise to the occasion of becoming, at least, functionally speaking, a good continuation of what Roosevelt represented earlier.

The Truman-Churchill policy was to reestablish the power of the Anglo-American oligarchy, the financier oligarchy, over this planet. And, a lot of evil was done. You had President Eisenhower, whom I used to refer to as President Eisenhowever, because on the one side, he'd do *this*, and on the other side, he'd also do *that*.

We have some good things that have happened, but we *have not been ourselves*. And we have now come to a great crisis, in which people have to be touched, like heroes who come forth in battle, to do a job. And they will succeed, if they can pick up the great legacy of the United States. The things that people, even in the 1940s, during World War II, all over the world, in India, for example, and elsewhere, would, look at me, as a soldier, and say, "When the war is over, are the Americans going to help us get our freedom? Are they going to help us develop an economy, a society like the United States?" We were admired; we were loved. And the Truman-Churchill policy, which was inaugurated instead of the Roosevelt policy, at the end of the war, caused us to lose much of that love. Because we betrayed it. Like the husband who betrayed his wife, we betrayed that trust and love.

But, we come to a time when we must do it again.

### A systemic crisis

The problem is this. The reason I got onto this: It's crucial, to understand the difference between a cyclical and a systemic crisis.

Now, there is nothing in economics which requires us to

**"Long before Paula Jones,  
long before Monica Lewinsky,  
there was a conscious decision, made in  
London, that there would be a full-scale  
campaign to destroy Bill Clinton,  
and to destroy, once and for all,  
the credibility of the office of the  
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have business-cycle crises. This does not come from economics; it comes from politics. Ours is a society, including the United States, as well as European society, which is based on two conflicting forces.

On the one side, you have the forces of *national economy*: These are *entrepreneurs*, the people who actually *produce*; these are workmen; these are normal people; these are professionals, the people whose interest is in scientific and technological progress for the betterment of life and for national security. These are the people who rally to save the nation and to build it. That's their *interest*: They want to make things better; they want to increase productivity, to address problems. We call these *the social forces of national economy*.

If we had to deal only with the social forces of national economy, we would never have a business cycle. The business cycle arises very simply, because we have a parasite on our backs.

The parasite is the financier oligarchy, which exists today as a clone of ancient Venice, which sits on top, which controls our central banking systems, controls our private financial institutions, and exerts great and corrupting power, which it then uses to extract usury from the real economy. And, as these people become richer, during a period of prosperity, the rate at which they suck blood from the economy increases. At a certain point, the amount of rent, and interest, and other charges, financial charges on the economy, becomes very large. And therefore, the flow of wealth from production does not flow back into society or into production, but instead flows into the assets of these financier oligarchy interests, who are much too wealthy for their own mental and moral health, who can be seen, with their degenerate practices, and so forth, displaying them in public. They try to act like Hollywood actors and actresses, or something, or some similar kind of degenerate.

And therefore, we have a crisis.

Now, in former times, when national security was a matter of issue, you would have depressions, periodic recessions or depressions, which were entirely the result of the interest and influence of this parasitical *thing* sitting on top of society, whether in Europe or in the United States, called a financier oligarchy. The loan sharks: They sucked your blood. If they were poor and dirty and unwashed, you called them loan sharks; if they were wealthy and powerful, you called them financiers. Same thing, actually, when it came down to it! A loan shark is simply a thief without a Wall Street office.

So, the characteristic of society in the Eighteenth and Nineteenth Centuries, the Eighteenth Century in Europe, the Eighteenth and Nineteenth Centuries in Europe and the United States, the Twentieth Century, up until the Kennedy administration, was of a balance, where the loan sharks, the financier oligarchy, would suck the blood of society, and have a periodic accumulation of this blood-sucking; the economy would go into negative growth, as a result of financial looting, and you would have a recession or depression.

Now, along would come a crisis, such as a threat of war, or the perception of a possible threat of war, or some other great crisis, and you would find that the national economy forces would somehow get back into power, in order to rebuild the economy, either to prepare for a possible war, to conduct a war, or deal with some other provocative emergency. So, you would have a period of growth.

If you look at the history of the United States and Europe, you would find that pattern. When does growth occur? Is there a decennial crisis, as Marx said? No, that was nonsense. There's a pulsation which is based on this relationship—the intersection of political events and crises with this economic process, which is this struggle between two political forces: the financier oligarchy, which generally sits on top, and the forces of national economy, whose interest is in growth, what normal people would want.

So, the problem has been *that*.

### **The shock of the Cuban Missile Crisis**

Up until 1962, what was different? In 1962, certain people engineered a nuclear crisis called the Cuban Missile Crisis, and the people who engineered this had the objective of eliminating the nation-state, and similar kinds of policies: people like Bertrand Russell and his co-thinkers. Khrushchov was among the people involved in this conspiracy, in a sense, with Russell, from 1955 to 1962-1963; Bertrand Russell and Khrushchov were essentially a pair, an "item," so to speak, a political item.

So, what they did, is they orchestrated a missile crisis, which produced a great *shock*—a cultural shock, which made possible what became known as the Baby-Boomer phenomenon; accumulated fear of the postwar nuclear conflict building up in people who were born either during the war, or after it, young people, who lived all their conscious lives in fear that the United States was going to be involved in a nuclear war. This *terror* struck the population! And suddenly one day, in 1962, *bang! It hits!* For several weeks, people are going in every saloon, looking for a church, because they think the world is going to come to an end tomorrow. *Terror! Pure terror!*

Now, Kennedy did essentially the right thing. But what was said about this conflict was something different. As a result of that, the people in the oligarchy—McGeorge Bundy, Henry Kissinger, people like that were all part of this—said, "Now, we have got into a position in which the United States, Britain, and the Soviet Union have agreed to enter into a process of *détente*, that because of their fear of a nuclear war, or having visited the brink of a nuclear war, they will now no longer think of going to a general nuclear war. We can still have war, but it will be limited. We will tend to have surrogate wars, such as—the Vietnam War was a surrogate war. Or, we will have other kinds of conflict, called irregular warfare, terrorism, other kinds of things, as a way of adjusting and shaping diplomacy, called cabinet warfare. We'll do that. But,



A scene from “Hair,” one of the hallmarks of the 1960s counterculture. “The predominant characteristic of this student population, of that period,” says LaRouche, “was lability, suggestibility—they were changing their sex, and their political spectrum, from one morning to the next!”

we’re no longer *in danger* of a general war.”

Therefore, it follows, from their standpoint, that “It is no longer necessary to maintain the kind of preparedness of national security economic policy which we previously have maintained. So now, we can go to a different kind of policy; we can begin to *take down* industrial society. We can begin to eliminate the strength of the forces of national economy. We can go into a society in which people are generally serfs, or human cattle, who stroke their forelocks and bow, as the aristocracy arrives back in the evening—if it’s not on its horses, then its Cadillacs, or whatever.”

### **From reality, to make-believe**

And, the cultural change was introduced: “We’re saying we are no longer going to rally to crisis with mobilization of the economy, the way it happened under Roosevelt, or earlier.” And, that’s how their policies are introduced. This became known as the great cultural paradigm shift of 1964-1972, so-called by the London Tavistock Institute, which was involved in this, and which was the most avid student of this process.

And thus, you had in Europe, and the United States, and elsewhere, you had what was called a “march through the institutions”—that the university student-population, of the 1964-72 period, began to move out of the universities, in a normal way, to occupy the professional positions, and related positions in government and business and elsewhere. And so, more and more, through the normal process of attrition and promotion, higher and higher ranking positions in govern-

ment, in business, in the professions, were occupied by people who tended to share this special kind of thinking which occurred in the Baby-Boomer phenomenon, in the aftermath of the ’62 Missile Crisis, the assassination of Kennedy, the assassination of Martin Luther King, and Bobby Kennedy, and so forth. So, the population was put into a shock.

Now, when a population goes into shock, as the Tavistock Institute describes it—Remember, this study by the Tavistock Institute was based on World War I experience. It was Brig. Gen. Dr. John Rawlings Rees of Britain, who was involved in study of what were called “shell-shock” cases, from the trenches in World War I, who found that the shell-shock victim was a person in a heightened degree of suggestibility and lability of behavior. And the question was: “How could you *artificially*, apart from actually having trench-warfare, how could you induce this same quality of lability and suggestibility into a population, a large population, or individuals, without taking them out in the trenches?” That became the concern, the *stated* concern, of the Tavistock Institute.

What we had, therefore, as a result of the prolonged nuclear crisis leading up to ’62, the impact on the minds of the young, the nuclear crisis, the assassination of Kennedy, the assassination of Martin Luther King, the assassination of Bobby Kennedy, and the Vietnam War, you had a *shock effect* on a generation which had been poorly prepared to cope with this in childhood, because of the conditions of life in the 1940s and ’50s, and which was totally unprepared psychologically or morally to cope with the crisis represented by this chain of events of the 1960s.

What do people do when they are confronted by that kind of shock, with that kind of moral weakness, a weakness of character, mass-induced in our children? They become highly suggestible, and they flee into unreality. They flee into various kinds of virtual reality. Now, we didn't call that virtual reality before. We used to call it *make-believe*. Fairy stories: "make-believe." And, if you studied closely, as I did, the behavior of the leading stratum of students on university campuses in the 1960s, late 1960s and early 1970s, that's exactly what you saw.

The predominant characteristic of this student population, of that period, was lability, suggestibility — they were changing their sex, and their political spectrum, from one morning to the next! Always running from one thing to another. There was *extreme* lability, and *extreme* suggestibility. You would examine the students, as I did, and ask them things, to find out what's going on in these funny heads of theirs, and you would find out what there was: There was a flight into make-believe; that the entire rock-drug-sex counterculture was a flight into pleasure, momentary pleasure-seeking make-believe.

The idea of happiness, as we had understood it earlier, no longer existed. Happiness, of course, is the conception: "I'm doing good work. I enjoy what I'm doing for humanity. I feel my life is worthwhile. I'm doing a service. I'm like an angel, here on a mission, I'm doing just fine. It's very good to be an angel! And this is beautiful, and that's beautiful." That's *happiness*: knowing you're going to die, and knowing that your life is meaningful, despite the fact that you're going to be leaving it in a fairly short time. That's called *happiness*. Happiness to see generations coming after you, prospering. Happiness to see the country becoming better. Happiness to see beauty in works of art. Happiness to have a thought which solves a problem. *This* is happiness.

But these young people didn't know what happiness was. They only knew a substitute for happiness, called "momentary pleasure," and momentary pleasure is that — just momentary. So, once you've had it, where do you go next? It's a short trip between filling stations. And, that's what happened, is extreme suggestibility.

So, what we've produced in our country — the shock-effect here — is we've produced a population which is saturated, as your entertainment media will show you. There is no cognitive content to most entertainment on television. None. It is a world of make-believe and pleasure-seeking, from sensual effects in a world of make-believe. Pyrotechnics in a world of make-believe.

And that's our population. Look at our news media; look at all our entertainment media. Look at the behavior off the job, of people. Look at the standards of what behavior is in the corporation or the government office, today, as compared with the performance-period of the 1950s or early 1960s. We do not have performance-oriented people, in terms of the physical result of what they're doing, or the effect of what they're doing on the physical result. We have people oriented to political

correctness, to perceptions, to fantasy, to *make-believe!*

Now we come into this situation, where people say, "What you have to do in making policy, is you have to make policy to *fit the consensus*." What's the consensus? It's fantasy. It's make-believe.

Well, we're coming to a real crisis, and one must say, "Buddy, the Mongols are *here!* They're gonna kill you."

"Huh? The Mongols, man? Huh?"

You get that kind of reaction.

## A reverse cultural paradigm shift

But, as you have seen in the reaction in Southeast Asia, and elsewhere, and also in the United States, as we closely monitor it, in this period, there is a reverse cultural paradigm shift in process in the world today. It's in process in the United States.

The Democratic Party is in a fight, between the old Democrats, the traditional Democrats, who represent, in a sense, a sensitivity to bread-and-butter issues, to real-life issues, and the New Democrats, who are completely fantasy-ridden.

Then you have — In the Republican Party, you have several varieties of Yahoos, plus some old Republicans, who are actually human beings, and who are dismayed by everything going on in the Democratic Party *and* the Republican Party, and among the independent voters, at the same time.

So, you have a process of tumult, in which the Republican Party, as you see from what's happening in the Congress recently, in is the process of fragmenting. The slime-mold principle is coming back into operation. The Democratic Party is fragmenting. The majority of the voters aren't associated with either party, and don't vote. And yet, the nation is in an existential crisis. And we find that in the field, out in the field, in the boondocks there, individual American citizens, the natural, organic leaders, the people who tend to respond with thinking most quickly, are responding, and they're organizing their friends and neighbors. For what? Just to talk about ideas. But important ideas, that bear on this situation.

You see in this attack on the President: The popularity of the President persists, because of a reverse cultural-paradigm shift, of disgust against Starr and Co. in the population, and against the Congress. The HMO issue, as it spreads among Republican candidates, exemplifies the same thing.

So, what you have to have now, is a leadership like a leadership in warfare, which doesn't say, "What is the bell curve showing what public opinion is up to now?" You have to have a leadership which says, "What are the people demanding as something *new*, which they want as an idea to replace that which they now fear?" The leader is a person who stands out *in front* of the people.

You know the old joke of the French Revolution? A couple of guys, political guys, are sitting in a café, discussing politics, and a mob runs by the café. The guy says, "I gotta go out and lead that — that's my mob." That's a typical American politician, isn't it? He says, "Well what do I think? Well, what's my pollster think?"



FIGURE 1

**U.S. import-export trade as percentile of foreign exchange turnover**

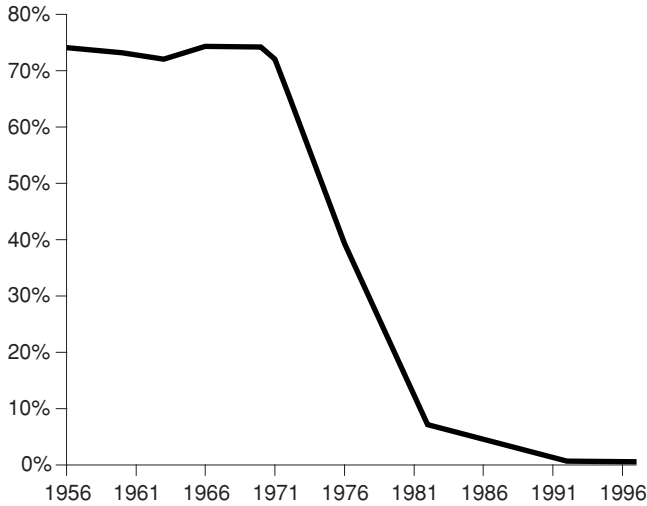
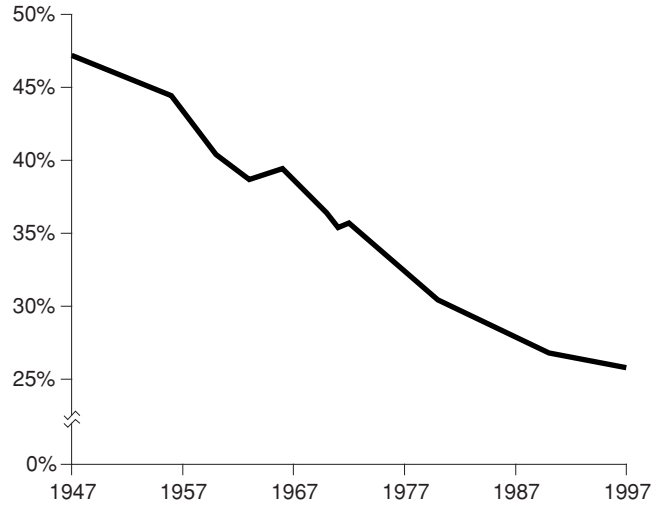


FIGURE 2

**Productive employment as percentile of total labor force**



**Collapse of the U.S. physical economy**

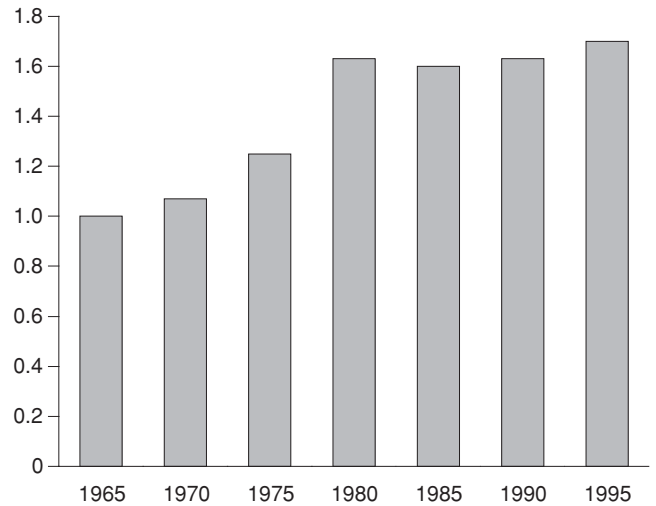
Now let’s look at some fun: just a few animated, or quasi-animated charts and graphs, which give you some indication of this change which occurred in the U.S. economy from the period of 1946, into 1966, and then the degeneration of the U.S. economy which has occurred since about 1972.

**Figure 1:** Here we have the relationship between the turnover of imports and exports, as trade, compared with the total foreign-exchange turnover. In other words, what percentage of foreign-exchange turnover is caused by imports and exports? We were running at about 70% plus, consistently, from 1956, into 1966 and beyond, up to 1971. Now, look what happens after 1971: We’ve gone from 71%, approximately, on average, which was traditional up until 1971. Seventy-one percent of the foreign-exchange turnover, in dollars, was related to imports and exports. Those were the good old days. Then, from 1971, with the introduction of the floating-exchange-rate system, following Nixon’s decision of April 15, 1971, you had a rapid collapse in turnover, so that we’re now down to where less than one-half of one percent of the total foreign-exchange turnover is accounted for on trade account. That’s called the door to bankruptcy. That means that most of our foreign exchange involves speculative hot air.

**Figure 2** shows a similar kind of pattern. Take productive employment—that’s people who actually produce physical things: infrastructure, agriculture, industry, and so forth. Look at that as a percentile of the total labor force, again to 1971. So, you have a secular decline from about 50% in 1946—in 1946, about 50% of us were actually working at producing physical wealth. It dropped down to 30-40% as we went into the 1960s. Then, what happened?

FIGURE 3

**Number of jobs required to meet 1965 standard of living**



So, this is the problem!

Now, let’s look at the effects of dropping the percentile of the labor force which is engaged in doing something useful, to see what happens in terms of some of the other characteristics of the economy, monetary characteristics. What happens? **(Figure 3)** The government is still there; it still costs as much, per capita, *but*, you’re earning less. What happens? The tax

FIGURE 4  
**Federal and state taxation as percentile of personal income**

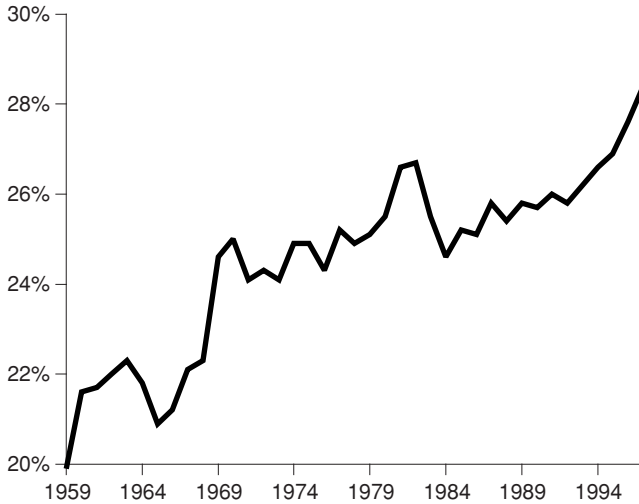


FIGURE 5  
**Federal and state taxation per capita**

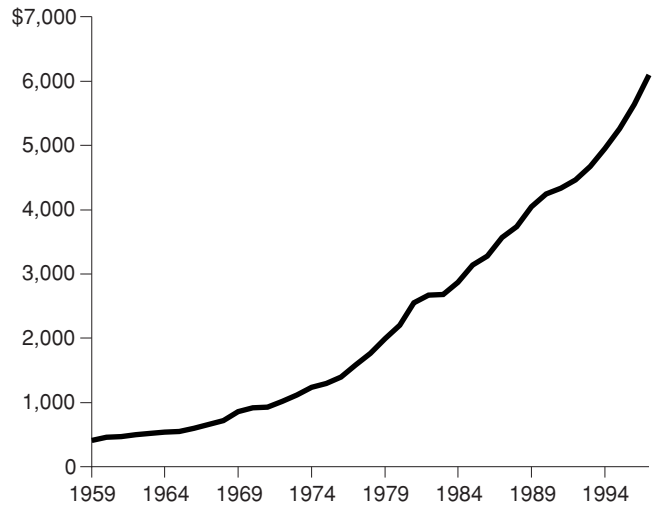
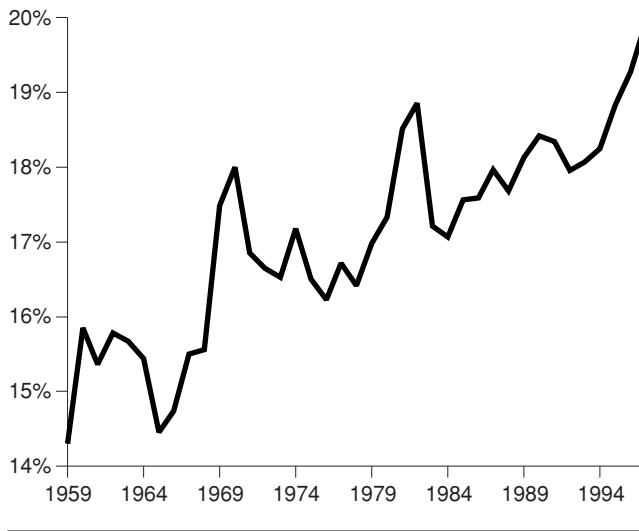


FIGURE 6  
**Federal and state taxation as percentile of GDP**



rate, the effective tax rate, combined tax rate, rises, on state, local, and Federal taxation (**Figure 4**). It rises, because you have fewer people actually producing — half as many, approximately — and therefore, you're tending to double, or approximately double, the burden, for the same government, on the citizen.

Now, look at this in terms of per-capita taxation (**Figure 5**); that gives you an idea of the same thing. Always bear in

mind the relationship between per-capita taxation and the percentage of the population, labor force, which is actually engaged in productive labor. Now, this is a dollar amount, which is not truly indicative, but it gives you some idea about what people are squawking about, which actually is a result of a decay in the economy. It's not a result of government growing too much; the government has actually shrunk, in all relevant aspects, in its goods and services. What you're seeing is the effect of a decay *in the economy* as a productive process. It costs more to get the same result. Less efficient.

**Figure 6** is more indicative. You compare the growth of taxation, as a percentile of Gross Domestic Product, which is more directly reflective of the impact of the contraction of the percentage of the labor force which is actually engaged in productive labor. The same thing, same kind of process.

**Figure 7** shows the same thing: The Federal tax base is shrinking, as a percentage of GDP. That's what the problem is. The problem is not anything that the Congress likes to talk about; the problem is very simple: If your economy has gone down to about 50% of the productive efficiency it had at one point, then obviously, everything is going to cost more, because fewer people are producing, but your actual costs of maintaining society are approximately the same, in physical terms.

And if you compare the two curves, you will see a correlation between this deficit (**Figure 8**), which began to become serious under Carter — the time we began to get this cumulative debt was with Carter. What you're seeing is a collapse, in the recent period, through so-called budget-cutting, a collapse of essential services to the population.

So, you see a correlation between what people experience, and the actual cause of this problem. People try to have a

FIGURE 7  
**U.S. Federal tax base as percentile of GDP**

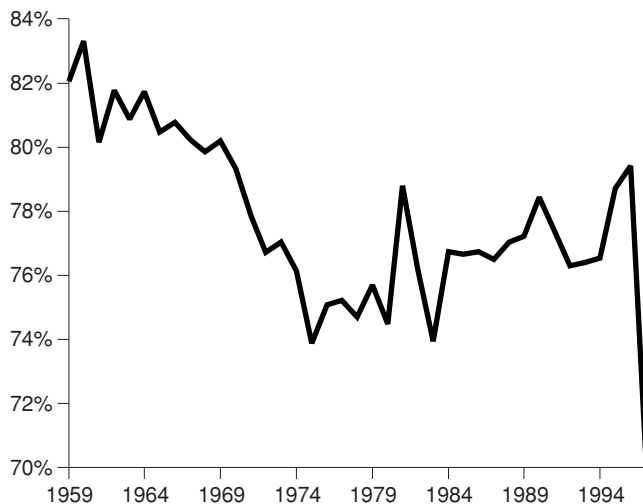


FIGURE 8  
**Federal budget deficits as percentile of GDP**

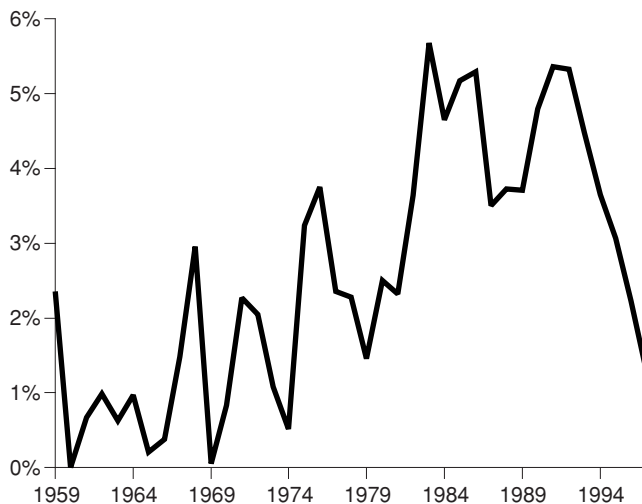
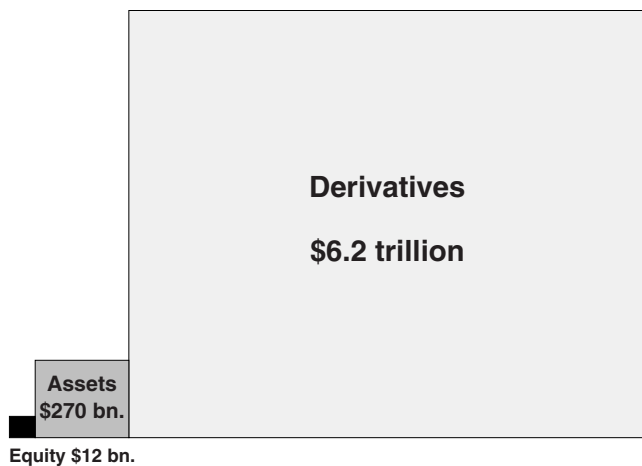


FIGURE 9  
**J.P. Morgan & Co.'s derivatives, assets, and equity compared**  
 (as of Sept. 30, 1997)



simplistic explanation, but here's the correlation, a very simple correlation. You could enhance this by showing more scale, but you would get the same effect: the tax-base collapse of the recent period.

Then, you find the fun one here (**Figure 9**), the 300 pound flea on the 40 pound dog. This shows derivatives. Remember, derivatives are gambling side-bets on the financial market; they're not investments, unless you consider gambling a side-bet in respect to Gross Domestic Product.

Now, the crucial point here is simple. Let's look at the 300 pound flea on the 40 pound dog: equity, assets, of J.P. Morgan. Look what we've got here. Now, derivatives. Look at this! Look at this! There's the 300 pound flea!  
 What does that mean?

**The world economy is bankrupt**

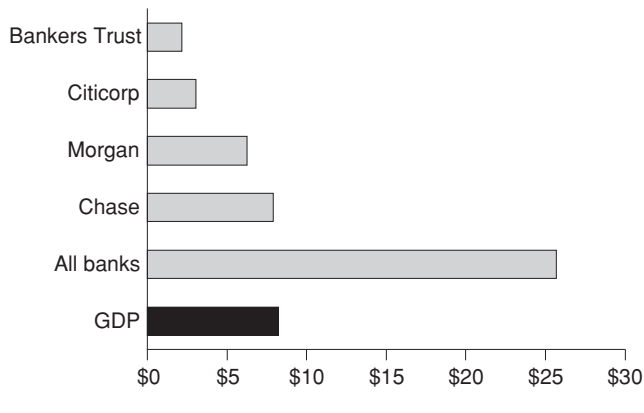
What it adds up to, is that *the world is bankrupt*. Every central banking system of the world is hopelessly bankrupt. Why? The key indicator is, that we have over \$130 trillion equivalent, minimally, of investments in so-called derivatives. Now, the greater part of this investment, so-called, is off-balance-sheet and unregulated, totally unregulated. No one quite knows, because this business goes on, seven days a week, 24 hours a day, through electronic circuits. People sit down with personal computers, plug into the Internet, or similar devices, and they trade. They make trades with all kinds of people, for all kinds of things. They make obligations, which they then peddle, or they trade off on the obligations; they pyramid this. The greatest amount of turnover, of financial turnover, per day, in the world, is *this*, this filth, derivatives, \$130 trillion of derivatives. In the United States, we have over \$30 trillion on our banking system alone (**Figure 10**). These are all current obligations. This is an amount which is several times greater than the total GDP of all nations combined!

Now, if your current obligations are several times greater than your gross annual income, what do you call that? Bankruptcy! Every banking system, every financial system in the world, is bankrupt. Which is why Bob Rubin has to say, "Not a nickel to bail out the banks." Because, what happens if you

FIGURE 10

**U.S. bank derivatives compared to GDP**

(trillions \$)



try to bail out the banks? It's a bottomless pit. What happened with Japan? Japan is now going into a Weimar hyperinflation-style pump-priming, to try to bail out the banks. On Wall Street, in order to try to politically manipulate and massage the stock-exchange figures, to manipulate the minds of dumb Americans, to get 'em for one last round: they pump money, in a hyperinflationary mode, into the financial system, in order to leverage, to build up a growth in the price of equities. And people believe it!

Well, what does that mean? It means that, when push comes to shove, when this collapses, *you can not pay off any of this.*

Now, suppose you had a private bankruptcy. You have a firm, or take a bank—"bankruptcy" is named after "bank"—what do you do? What do the auditors, what does the government do? You have to come in and sort out the garbage. You have to decide what, in terms of *policy*, you will pay or guarantee—that is, you may not be able to pay out the savings, but you're going to guarantee them, so people now have that saving as a credit, which can be used. You will find certain assets which, in a recovery, will have a certain value, so you may freeze those assets, and wait for the recovery. But, you keep those values on the books, because the government thinks they're reasonable, that there will be a recovery, and that these things will come back to their proper value. So, you simply set prices.

Now, you come to the real garbage, which is sitting there at the back of the line. "Buddy, you'd better go home. There's not going to be anything for you, now or ever." We're going to have to wipe off the books, over \$140 trillion of dollar-equivalent value, of current financial assets. There's nothing we can do about that! That decision was already made, when we let it become like this. There's a consequence. If you're a drunken driver, and you keep driving, you're going to be killed! Don't blame the accident for your getting killed; blame

yourself, for being a drunken driver. If you're doing this, and you're doing this for years, and you come to a catastrophe, don't blame anybody else; blame yourself, for doing that. We have no one to blame but ourselves for this mess. The blame lies with what we allowed ourselves to believe, or to tolerate, over the past 30 years. We tolerated changes in policy, which no sane government or no sane people would tolerate. The accumulated effect of these changes has been to produce that effect: The economy is bankrupt. The banks are bankrupt. So, you have to shut down the banks!

Now, what do you do?

We've done it before: You have a general bank reorganization. The local East Oshkosh bank is necessary, so we keep it in business. But, you say, "It's bankrupt." No, we'll keep it in business. We'll put it in reorganization, receivership. The banker will sit there, the depositors will be assured that their deposits are covered. We will continue to service the community, which you must do. We will supply Federal credit, to make sure that this bank is able to function, has something to give to keep the community alive! Because social policy is the question here: Are you going to keep communities alive, or are you going to write people off?

That's what we did in the 1930s, what Roosevelt did: Find ways to keep people employed, to keep them fed, keep things moving, and, while you're doing that, build a recovery, which will solve the problem. And, we're going to have to do that.

And, what the problem is in Washington, and elsewhere, is they don't have the guts to face up to this. In Japan, as you see in the case of Sakakibara, the minister—he's said things which show, and I know personally, from my contacts in Japan, they know what this is about. I warned, when I was on a trip to Japan in 1995, I met with leading circles in Japan; I warned them exactly that this was going to happen. They all *knew* it was going to happen, and it *did* happen. And some of them won't talk to me now, because they lost face, because they opposed me then. It's a very embarrassing thing, this face-losing thing. Who cares? They were wrong, so what? They don't lose face; if they correct their errors, as far as I'm concerned, they're as good as gold.

But that's the problem.

So, what are they doing? They are politically so involved in bailing out banks that cannot be bailed out, that they're willing to destroy their whole economy, in a great mass *seppuku*, in order to save face for the banking system. And they'll destroy, not only themselves, but they'll destroy, if they're able to, they'll destroy Southeast Asia and other things as well.

This is insanity. You have the same insanity here. "Oh! Oh! Oh! You can't *do* that!"

That's the difference between a leader and a weakling; that's the difference between a commander, in the tradition of von Schlieffen, and a muddler, who averages the risks, who loses wars and other things, like young von Moltke. That's the difference.

## A recovery program

Now, the key thing here, is this: recovery program.

We've been working on this for a long time; I've always known how to do this, at least in my adult life, most of my adult life, I've been working on it.

Let's go back to Lazare Carnot, a great commander, one of the best. A great scientist, great military commander. He devised, as I said, the Machine-Tool Principle. And it looks simple on the surface, but it's more complicated than that, because he was a great geometer, among other things. But essentially, what the French were able to do, among other things, is to mass-produce mobile field artillery. Now, this was done by machine-tool standardization of construction, assembly. And thus, the French were able to mass-produce mobile field artillery. Now, if you know the methods of warfare at that time, if you could turn up on the field of battle with mass field artillery, you can control a lot of things; you can sort of reshape the terrain. And these were among the things that changed things.

At the end of the Napoleonic Wars, people left France—patriots. Some of them came to the United States. They ended up, in part, at West Point Military Academy, or at least advising West Point Military Academy, particularly during the period of Commandant Sylvanus Thayer. What they brought, is the Monge program of mathematical and engineering training: the greatest source of engineers, which made our military excellent, that the officers were trained to be engineers, not slob. And the Corps of Engineers was a product of this kind of training. So, we had an engineering capability which, in that period, the period following the War of 1812, and Thayer, and afterward, came to be centered in West Point. When Annapolis was created, largely under the influence of Alexander Dallas Bache of Philadelphia, who was a confidant of people like Alexander von Humboldt, as well as Gauss, it was created on the same basis: of creating a naval engineering, scientific capability, as the basic program in the establishment of a naval academy at Annapolis.

Along came the Civil War; the United States had been kept backward, and actually somewhat retreated, as a result of the influence of the Southern slaveowner faction, together with the New York bankers, on the economy. We got into a war; the Southern slaveholders had absented from the government, so the government was now free to make decisions without consulting the slaveholders, because there was a war between the two forces. Under these conditions, Lincoln, advised by Henry Carey, set into motion a program of rebuilding the economy for war, and for other purposes. And in that process, as I said earlier, from 1861 to 1876, the United States emerged as the world's leading economy, in economic strength, as well as the most technologically advanced economy in the world.

Why?

Because the U.S. program, which was based on collaboration with people in Germany, such as Gauss and Alexander von Humboldt, German science, and was based at the same

time on the influence of the French Ecole Polytechnique, and the program introduced at West Point, in engineering. The United States was able, very quickly, with these cadres and with this science, to create a machine-tool-design industry, which enabled the United States not only to produce the logistics of warfare, but to make a revolution in economy in the same process, a revolution which continued beyond the war itself. That became known as the American industrial model.

The key thing is this: What defines an economy—and I'll indicate what the relevant implication is—what makes an economy successful, is long-term investment in increasing the investment in means of production, in infrastructure, and in people, per capita and per square kilometer. This means a large capital accumulation in these areas.

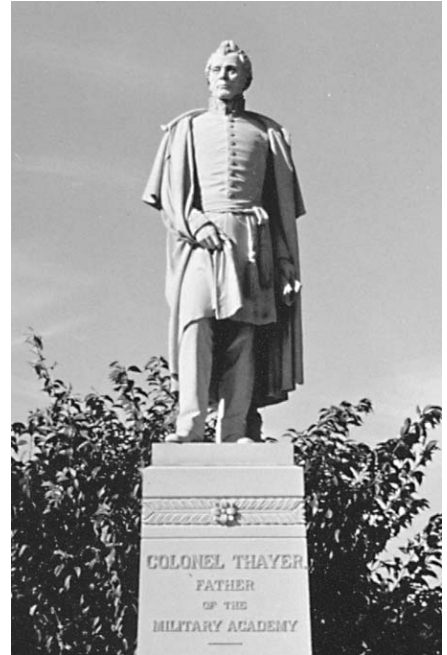
That's the problem that China now faces, in trying to deal with an employment problem, a continuation of its employment program, in light of the fact that there's not going to be any foreign capital coming in to China, as they expected earlier last year; it's not going to be coming in. So, China has adjusted its policy to fit the reality of the world crisis. Now, they're going to have to rely on internal infrastructural programs, rather than what they thought would be a transformation aided by large influxes of foreign financial investment. It's not there anymore. So the Chinese, being very intelligent people, have done the intelligent thing. The leadership, Zhu Rongji, the new Prime Minister, is part of this, and they made a change in their policy, which is not a change in policy, because China's policy is *to survive and grow*. And deal with security problems. So, they're going to continue to deal with the policy of survive and grow, under the program of reform with Chinese characteristics; that's going to go on, but they have to adapt that policy to the weather conditions, and similar conditions, that hit them. And, they're going to do that.

Now, how is China going to sustain a very large investment of employment of previously marginal labor, in new industry? How is it going to do that, and avoid unemployment? How are they going to empty the parasitical aspects of the industrial rice bowl from the state industries, and put some of the people who are living on the industrial rice bowl out to employment in new industries? How are they going to do that? This is going to be a very large infusion of capital, of social capital, into this expansion of employment, under conditions where the world financial markets are collapsing. How is China going to do that?

Well, it's very simple. If you do not have a large factor of technological progress, you *can't* do that. You can only do that with high rates of technological progress. Now, how does technological progress occur, and what is China's problem, and how do we fit in with this, in this case?

## The secret of modern industrial economy

The secret of modern industrial economy is scientific and technological progress. How does that work? Well, you have to improve the infrastructure; you have to build water systems; you have to build power systems; you have to build



*The tradition of France's Ecole Polytechnique was influential in the United States via such institutions as West Point and the U.S. Army Corps of Engineers. Left: The Army Corps of Engineers' construction of the Bonneville Lock and Dam Project, near Portland, Oregon. Right: West Point Commandant Sylvanus Thayer.*

transportation systems, which is largely a state responsibility. This has never happened adequately except under the direction of government. You can not build transportation systems, you can not build power systems, you can not build water management systems adequate to the needs of modern society, except as the economic activity of government, which may farm some of this stuff out to private interests, as we did with our utilities industry. But it is government's responsibility to have this done and to regulate it. Otherwise, no economy. "No hands, Ma!"

The government's responsibility is also to foster a system of education and scientific research, which will create scientific progress, and will create a population, unlike the Russian civilian population under the Soviet system, which is capable of assimilating technological and scientific progress at high rates of efficiency. That's not so easy.

Thirdly, the government must provide the means for fostering the realization of scientific research and this educational program, in terms of investment of this technology into farms, industries, and so forth.

The result of that will be, of course, an increase in the productive powers of labor per capita, and therefore, the trick in this is to get a sufficiently high rate of increase of productivity, to offset the otherwise increasing capital costs of your employment program.

### **The Machine-Tool Principle**

Now, what's the problem then? The problem is, this requires a very highly developed machine-tool-design industry. What is a machine-tool-design industry? Let me walk you through this issue, very quickly, in this concluding section.

Since the middle of the Fifteenth Century, the idea of science has been revolutionized — what we call science today, or what competent people call science today, is not what people thought science was generally, prior to the Fifteenth Century — as a result of the influence of the work of one man, Cardinal Nicolaus of Cusa, and a series of his writings, including a work called *De Docta Ignorantia*, published in 1440, which created the idea of modern experimental science, and also some of the principles of that.

This work, for example, was studied by Luca Pacioli, who was the patron of Leonardo da Vinci, and studied extensively by Leonardo da Vinci. This was the work which, directly and indirectly, shaped the thinking of Johannes Kepler and of William Gilbert and others, who were the founders of modern science and modern technology.

The basis of modern science, is so-called experimental physical science. What does that mean? If you are given a problem, a crisis, you say, "The figures don't jive. The experimental evidence shows that what we believed to be true, is not quite true. There's some error in what we think."

So, you take this and you think about this, that is, the scientists. And you say, someone says, “Well, I think I’ve discovered a principle.” And a group of people agree: “Yes, that is a valid discovery. We go through the same exercise, we come to the same conclusion. You’re probably right.”

Now, what do you do next? What you do, is you go to a very sharp machine-tool designer — or you may do it yourself, because you have that capability — and you build an experimental apparatus. It may be a new kind of telescope, it may be something else. But, you build an apparatus which is designed to test that principle you think you’ve discovered.

Now, when you have completed a successful test, and have proven the principle is valid, by scientific standards, what have you got? You’ve got a refined machine experimental design, which is a machine-tool design. Now, the application of that design to any field of application, results in the generation of a technology which can be copied from the experimental apparatus, and put into designs of products and designs of industry. This is true in chemistry, it’s true in astrophysics, it’s true in every other department.

So, therefore, what you require, is a relationship between a government-steered program of scientific research and advanced education development which is science-oriented, in particular; a relationship between that, and experimental apparatus builders, to a machine-tool-design industry. The machine-tool-design industry turns technology into what? It turns designs into designs of products, improved designs, and new kinds of products. It turns these same principles into new conceptions, and new kinds of productive processes.

The result is, that with less labor, you get better result and more result. As a result of this transformation of ideas from the creative mind of man, of educated man, of developed minds, you get a transmission through the machine-tool industry, into the average practice of life, of daily life. And if you invest in this process, if government says, “We will give preference to the promotion of investment in useful inventions, we will sponsor entrepreneurs who will do this, we will give them cheap credit” — as we did during the war. We supplied machine tools to all these guys who were bankrupt, and that’s how we got our war machine. You could go around and find machine tools all over the United States: “U.S. government property” all over them. And, that’s how we produced. The government subsidized it. And, that’s how we built the great recovery of the postwar economy.

The problem, then, in Asia, is what? There are only several countries in the world which have, today, an adequate or reasonably adequate machine-tool capability. We don’t really have an adequate one. These are the United States, which traditionally was a machine-tool country, after 1861-1876. We were the beginners of this policy. Actually, it was begun by Lazare Carnot, but we became the first ones to develop an entire economy, based on a machine-tool-design principle.

We’ve lost that. We destroyed it. We can no longer make a space shot the way we — the same space shot we made in

1969. We lost it! We lost it ten years after that. We couldn’t replicate that any more. We’ve lost essential industries necessary to do that.

The other country, the leading one, is Germany. The other leading country, is Japan. You have a small one in Korea. You have something in Austria, you have something in Switzerland, a bit in Italy, some in France. But generally, the machine-tool powers of this planet, are traditionally the United States, Germany, and Japan.

Now, in the Soviet Union, and now in Russia, we have fallow what used to be called elements of the scientific military-industrial economy, which is the only section of the Soviet economy that really worked, where you had scientists who were taking crap produced by the civilian economy, and making effective weapons. This was a scientific-driven, machine-tool-technology-driven military. The famous Soviet superweapons all came out of this kind of stuff. This is fallow, it’s not being used; it can be revived.

But then you go to China: a great part of the human race, 20% of the human race. Go to India, which is going to have a larger population than China in a few years, by the end of the century. Go to adjoining countries like Pakistan, Bangladesh. Go to Southeast Asia: Indonesia, the fourth-largest country in population in the world. What do they have, in terms of machine-tool capability? Not quite zilch, or quite zilch.

China has a deficit in machine-tool capability.

What is the strategic economic interest of the United States, Germany, and Japan, and so forth, if they’re using their heads? China has a problem. China does not need vast amounts of money-capital flowing from the United States into China. They don’t need it. What they need, is sufficient access to a machine-tool capability, and to developing their own machine-tool industry, to expanding it, to enable them to convert high rates of employment — the capital investment in new employment — into a sufficiently rapid rate of increase in productivity, so that this capital investment does not become a crushing force.

Therefore, we, who represent the pinnacle of European civilization, who have embedded in us, at least traditionally, this machine-tool capability: Our vital interest is to establish collaboration with the most populous section of the world, which is largely concentrated in East and South Asia, and to enable these people, who desperately need this kind of assistance, to import precisely what we should be exporting.

We should not be exporting shoes, we should not be exporting consumer quantities of this junk. We should be exporting what they really need, as sovereign nations, for a sovereign future. We should be developing a global partnership for the equipping of the entire planet with a machine-tool capability adequate to meet that need.

### **The Eurasian Land-Bridge program**

Let me just indicate some other things that go with that. The project to unify this, that I’ve proposed, my wife has

worked on, and others have worked on, is called the Eurasian Land-Bridge program. It's sometimes called the Silk Road program. We developed this over a number of stages during the 1970s and 1980s. In 1989, we launched it, in one form—my wife and I, and several others—launched this package, which became first known as the European Productive Triangle. And then later, beginning 1992, my wife negotiated, or had discussions with people in China, on this policy. And this was based on looking at some of the problems in the former Soviet Union, and looking at China, and saying, "Here is a common interest to develop the undeveloped and underutilized great area of Central Asia, which can only be done by this kind of method. And this is something which is in the common interest of China, of Europe, of the former Soviet Union, as well as the United States. So, therefore, we should make this process, which connects the largest parts of the world population to industrial development, and takes the largest area of undeveloped area, outside of Africa, and converts that into an area of growth, of global growth."

Now, what's needed, is several things, changes.

We need high-speed transportation. We're talking about thousands of miles. You're talking about the U.S. transcontinental railroad system, as it was understood by Lincoln, developed on a Eurasian scale, involving not a few million people, tens of millions of people; but, we're talking about *billions* of people. We're talking about the greatest growth on this planet for the next century, if we do it right.

This means new transportation systems, such as high-speed magnetic-levitation rail systems, instead of friction rail systems. This means tremendous amounts of power. We have it: high-temperature nuclear reactors of a new type, the HTR type, which are being mass-produced, or serially produced, in China, and which could be serially produced—of German design—which can be serially produced in other countries. You can find the nuclear energy.

We need vast water management. This area is technically water-scarce. We can solve some of the problems by water management. We also are going to have to change the ecology of the planet. We're going to have to desalinate vast masses of seawater in coastal areas, and save the upriver rainfall for the upriver needs. We're going to have to pipe mined freshwater—mined from oceans, as well as managed from rivers—into areas which are deserts, like the great deserts of Central Asia. We're going to have to do the same thing with Africa. And, that's what's needed.

These are great projects which, in terms of their economic impact, are equivalent to a mobilization for general warfare, in which you have the economic benefits, which we are accustomed to having, from technology and otherwise, from large-scale mobilization for general warfare. We are going to have to transform, increase our own ability as machine-tool powers. We're going to have to revolutionize our educational systems, to become science-oriented again. We're going to have to develop machine-tool capabilities in countries that

need it, in partnership with us.

There's going to be a need for food. There are various ways we can meet the need for food in Asia. The great way to meet that need, is Africa. *Africa is at present the greatest potential food-grower on this planet.* That is, it has the greatest area, which is designated operational agricultural land, which, if suitably developed, could very readily become a great surplus food producer.

If you develop a transportation system of this type, and link the so-called Silk Road, or Land-Bridge system, through Egypt, into a rail link in Africa, which we could build for them—We don't have to charge them anything. The benefits are so great, just give it to them. They don't have any money, so give it to them. Because the benefits, the payoff is tremendous. Once they have that kind of system, then the food-growing potential of Africa becomes tremendous, and that becomes a basis for rebuilding Africa, and giving it that initial start, that kick-start it needs to enter efficiently and fully into modern society.

So, we have before us, two alternatives. We have, on the one hand, the prospect, if we don't do what we have to do, of a New Dark Age descending upon all of mankind, a Dark Age whose best paradigm, for purposes of comparison, is the Dark Age that struck Central Europe with the collapse of the Lombard banking system in the middle of the Fourteenth Century. And that can happen planet-wide, which would mean about two generations or so of New Dark Age throughout this planet, with the world's population perhaps collapsing to levels of the several hundred million which was the world population level during the Fourteenth Century. That's a likely prospect.

On the other hand, if we cooperate with these countries of Asia, to create a just new world economic order on the ruins of a bankrupt system, and engage in great enterprises of the type which we've conducted before, to develop Eurasia, and to bring justice to Africa at last; if we do these things, then the Twenty-First Century can be the brightest century of human existence. Because, by these means, by bringing people into this process, we have the opportunity to establish as universal, a principle which *is* universal: the principle that all persons, man and woman, are each made in the image of God, and must be afforded a condition of life in society, an opportunity which is consistent with a being of such qualities, and to develop and perfect our political systems, to bring them into accord with that objective.

This next century can be the most glorious in the existence of mankind to date, or, it can be the most awful. The decision lies now with us in 1998: Can we summon the leaders, and the leadership, to do what many people, still, at this moment, would consider unthinkable? To maximize the risk, rather than spreading and minimizing it? And, by maximizing the risk, as the great commanders in warfare, to win the war, whereas those who minimize the risk are sure to lose it.

Thank you.