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## LaRouche on Economics

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# A 'Mittelstand' for Eastern Europe

How can the newly freed nations of Eastern Europe best organize their industry in a rapid manner? This issue was recently taken up by Lyndon LaRouche, a Democratic candidate for U.S. Congress in 1990 from Virginia's 10th District. "We need this, in order to address some analogies which understandably develop when we talk about developing a *Mittelstand*, in the German sense, for Eastern Europe," LaRouche said, referring to the small and medium-sized entrepreneurial system of the Federal Republic of Germany. "This particularly, of course, affects Poland and East Germany, and will also, presumably, affect Czechoslovakia, in the short run. And it will also be of some significance in the case of Hungary.

"This also bears in a subsidiary way, on the discussion of U.S. policy toward the Soviets," in the sense of an "alternative to the rather foolish course which is currently, so far, being pursued by President Bush," he added.

LaRouche contrasted the shutdown of industry and agriculture in places like Dortmund, a steel center in the West German Ruhr region, with the function of the *Mittelstand* in West Germany up to roughly 1984, as the exemplar of a "practical model to which we refer, for any scientific theory" in addressing this issue. The problem, he specified, is that for the last generation, the economies of the "so-called capitalist industrialized sector" have declined nearly to the point of reversal.

"Over the past 25 years, the economies of the so-called capitalist industrialized sector, Western Europe, North America, so forth, Oceania, with the exception of Japan, have generally gone into reversal," he pointed out, due to three factors: the malthusian idea of a post-industrial, ecological, or eco-utopia; the associated idea of usury; and the "free market" idea of privatization, or deregulation of essential sectors of public utilities, government-owned, privately owned public utilities. For the third factor, he pointed to "the break-up of the telephone companies in the United States" as one example. "The break-up of a private utility, the selling of public utilities, such as water systems, power systems, and so forth, is another example of this sort of thing, in England. This sort of thing is absolute insanity."

"Now, in dealing with the East bloc, say East Germany, or in Poland, we're dealing with state enterprises, or large-scale state enterprises, particularly in manufacturing, and related things, which people in the West think ought to be privatized. I think that is, in a sense, a mistake, because who, in Poland, for example, is going to buy a large Polish state-owned enterprise, or in East Germany? In some cases, these East German entities have historic affiliations with the firms in West Germany. And, therefore, one might envisage a socially acceptable arrangement, under which some of these firms might combine their stock holding, as East German firms, with the private stockholding of West German firms. And by giving the management, employees, and otherwise, a share in the stockholding firms, as well as state interests, which can be bought out by the employees, you might do something of that sort."

He continued, "In general, the idea that we're going to have someone come in quickly, and buy up shares of stock in these firms, and privatize them is not the crucial thing. And by no means is it desirable, that we try to privatize the large-scale infrastructure, that is power systems, transportation systems, such as rail and major water systems." The congressional candidate laughed, "The spread of the disease of Thatcherism, into Eastern Europe, is not our idea of the spread of freedom. It is still another disaster that has brought us to the brink of fascism; we certainly don't recommend this as a remedy for the conditions of those in Eastern Europe who have already had more than their share of the taste of totalitarianism in the last 40 or more years."

Instead, "privatization should refer to two specific sectors of society. One is agriculture, the other is the industrial-related sector we call the *Mittelstand*, or at least that portion of the *Mittelstand* upon which we shall try to focus."

## The U.S. family farm

The candidate, who if elected in 1990 will play a key role in the Joint Economic Committee of Congress, recalled, "In the United States, until 1977, approximately, until the Carter administration, despite all difficulties, there developed during the postwar period a system of agriculture, based on, generally, 100-200 or more hectares of well-developed farmland used for crop-growing: corn, mixed crops, grains, raising cattle, therefore, feeding stock of cattle, and so forth, on the same plot. These were farms that were owned, generally, by individual families, or by a group of farm households, such as different households of the same family—a grandfather, brothers, each having their separate families, but combining to operate a farm of 100-200 hectares, or more. These were high-technology farms. They used a great deal of electrical and other forms of power, per capita and per hectare. These were the greatest, the highest producers, in agricultural history, comparable to some of the best farms, say, in the north of the Federal Republic of Germany; what could have been the case in East Germany, but for the regime there, and

the fact that the regime was under Soviet domination, which, of course, is never good for any economy.”

This kind of agriculture is the kind which has given the highest degree of productivity so far, LaRouche emphasized.

In the future, “we will probably be going toward a higher population density, i.e., fewer hectares per farmer, as we move toward factory farms. That is, as we now grow chickens, or pigs, in industrial, quasi-agro-industrial forms, we

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will probably grow, first, very expensive crops, in what is called hydroponics,” i.e., irrigated hothouse conditions. This means that “the actual number of acres operated per farmer per capita, will be reduced, as we increase greatly the energy and technology intensity of farming. But we can still talk, with present technology, of the 100-200-hectare farm, or perhaps, in Europe, 50-200-hectare farm, as a family- or multi-family-operated enterprise, free enterprise, or private enterprise.

“Let’s consider this farm, this type of farm: high-technology, capital-intensive, energy-intensive, extraordinarily high productivity, as the typification in agriculture of the *Mittelstand*.

“Now, in the urban-industrial city, we have, generally, two types of firms, which any healthy modern industrial society must have,” putting aside infrastructure from our considerations for the moment, LaRouche specified. “One is the very-large-scale enterprise, the mass-production enterprise. Despite all the silly discussion which is now going on in the West, deriding Henry Ford’s idea of integrated manufacturing, this is still the most efficient form of large-scale production, under sane and healthy economic conditions. The past 20 years have not been sane and healthy, and therefore, we have conditions in which this kind of integrated manufacturing combine no longer works the way it should work, in a healthy economic environment.

“Now, these firms being large and integrated, have certain advantages for society as a whole, and for themselves. But they also have certain disadvantages, for certain functions. They cannot maintain, in their bounds, all of the functions which are required to maintain them.”

### **The high-tech small firm**

“There are certain kinds of high technology, or skilled services, and so forth, and certain kinds of supplies, which are better provided these firms by vendors of highly skilled services or products, or component parts and machinery,

which are small fits,” LaRouche went on.

“Now, the typification, in my mind, of the high-technology *Mittelstand*, in respect to manufacturing, is the very advanced machine tool shop. Today you might have a machine tool shop, which is specializing in developing laser machine tools, or machine tools which incorporate the function of lasers, for service treatment, and cutting and so forth and so on. These kinds of machine tools were developed in very small shops in East Germany, and West Germany is an example of the kind of place which would develop this. Look, for example, at an aerospace firm, such as MBB [Messerschmitt-Bölkow-Blöhm]. You find among a roster of its vendors, firms which fit this description. These firms depend upon, largely, a firm like MBB, or the auto firms, as a large part of their market, but in turn, the large firms depend upon this *Mittelstand*, for competent economic functioning.”

LaRouche went on: “This is what we mean, all the things that approximate this, by a *Mittelstand*. Imagine an engineer, a scientist, a highly skilled machinist, somebody with other special skills, who will set up a small firm, which decides it has a service which it can deliver to any of the number of enterprises around it; sees a market for them; talks with the people in the enterprise; finds he does have a market for his particular type of services; sets up the firm, and supplies the service, say, to larger firms in the area.”

LaRouche described the kind of *Mittelstand* that provides maintenance services. “People buy household appliances. They need these appliances serviced. We have found that the *Mittelstand*, the private firm, in the locality, which specializes in servicing these kinds of appliances, is often the best—better than the factory service department. It is better for the factories to find a firm which does an excellent job in servicing appliances, and make sure that this firm is equipped to service that particular factory firm’s type of appliances in that area. You generally end up with a much better arrangement than if the factory tried to set up its own representative for repairs,” he pointed out.

This is the kind of enterprise that can and must be developed rapidly in East Germany and in Poland, he stressed. A large number of Poles are skilled, and under the proper circumstances, “they would go back into large firms to play a role which befits their skills, but at the same time, they represent a portion of the Polish population which is qualified to develop the kind of *Mittelstand* firm required to service manufacturing, agriculture, and other things.

“In East Germany, we have the same thing. We have many highly skilled people, and what we wish to do is unleash their individuality and skill to provide a highly flexible, and highly diversified, adaptable type of service; to maintain the consumer sector of society, to service in part the infrastructural firms and enterprises, but to center around the servicing of large manufacturing enterprises, which cannot as efficiently do for themselves what they can do by bringing in a good service, or machine tool supplier,” he concluded.