

The Indispensable Role of the State In Reorganizing a Bankrupt System

Mr. LaRouche gave this speech on Jan. 16, 2003 to the Institute of Economic Growth, a think-tank at New Delhi University.

Moderator: At this time, I would request Mr. LaRouche to initiate a discussion. My friends who are assembled here today, are selected out of the larger faculty, because our faculty has varied interests. Macroeconomics is only one sector of them; a good number of them have interests in environment, culture, and industry per se. . . . We have some of them, at least, who have specialized interest in macroeconomic issues; they are here today.

So, Mr. LaRouche, please.

Lyndon LaRouche: Thank you. Because of the composition of the body here, I shall say certain other things, which are relevant to government problems, as well as economic problems as such.

The month of January is of much more extraordinary importance, than perhaps is suspected in most parts of the world. During this month, by the 29th and 30th of the month, decisions will have to be made in the United States, which will determine the future direction of events in the world as a whole. Simply, the United States has reached the end of the line of policies which began to emerge about 1964, which transformed the United States, gradually, first from a producer society, which we were at the end of the war—the world's largest, leading producer society, of agricultural and industrial goods. We became, beginning 1964, especially '66 on, we became increasingly a *consumer* society, rather than a producer society, depending more and more on using power to extract what we consumed from other parts of the world: a rather inequitable arrangement.

As a result of that, we no longer are an industrial power. We have lost most of our industry. Our agriculture is a shambles. And we depend largely upon relatively poorer countries, such as those, immediately, of South and Central America, and elsewhere, who supply us our food, at very low-wage—under low-wage conditions. We, now, are totally bankrupt. The United States' Federal government, at the present level, with the President's indicated stimulus package, would be operating in the course of this year, at a *trillion-dollar-a-year deficit rate*. So much for his performance, so far. That is not going to happen. The stimulus package has already been voted

down in the Congress. And, he will not get it, in the form it is proposed now.

But, also we have, every leading bank in the United States, is essentially bankrupt. A similar condition prevails in Europe. In financial derivatives alone, internationally, we have a minimum of about \$400 trillion worth of financial derivatives, combining those on record, and those which are done off-balance-sheet, or off-the-record. The most vulnerable part of this, is \$30 trillion or more of credit derivatives, and these are very dangerous. We have, as you know, a world product that is estimated in the order of magnitude of \$40 trillion equivalent. And, we have not only this financial derivatives debt, which is, all of it, more or less short term; and, at the same time we have the other debt, which has accumulated over periods of years.

We have a situation in South and Central America, where Argentina is being destroyed in much the same fashion that other countries were destroyed in 14th-Century Europe, by the attempt to collect on unpayable debt, usurious debt. Brazil is on the verge of going into the same problem. They're trying to manage the crisis, but there, no solution has been presented. Only a complete reorganization of the debt of these countries, on terms different from those which are acceptable to the World Bank or IMF, could possibly work. There are remedies.

Now, so this comes to the point, that you can say: The game can not continue any longer. We have, inside the United States itself, what I have produced—mobilized—is a program of large-scale infrastructure development, which is modelled on our experience in organizing a recovery, under Franklin Roosevelt, from 1930 on, through 1944 in particular. And, one of the central features of this, of course, is the Reconstruction Finance Corp. of Jesse Jones, which Roosevelt reorganized, radically, to make it an instrument, which was then copied by Germany in the post-war period, as the Kreditanstalt für Wiederaufbau. So, these are features there.

But, in order to organize, in a period in which there is no financial capital readily available, in current banking and related channels—the banks themselves are bankrupt; the governments are currently nominally bankrupt. The international monetary-financial systems are bankrupt. What do you do, under such circumstances? Then you have to go to the government. And the government, the state, has to create credit, to reorganize the economy, at the time, that the finances



India's beautiful Taj Mahal, one of the architectural wonders of the world. "The nation-state," said LaRouche, "is the chief cause for the improvement of the condition of humanity, to the extent that it has happened, over the past 600 years."

of the international monetary-financial system are being reorganized.

On the first account, we had success in Italy, where the Chamber of Deputies of Italy voted by a majority, voted my proposal up, as a recommendation, for going back to the Bretton Woods discussion, and use the experience of the first phase of Bretton Woods as a model for reorganizing the international monetary and financial system, now.

The U.S. Economy Is at the End of the Line

But that, by itself, depends upon other things, particularly in the United States. Of the 50 Federal states of the United States, 46 are presently—were they not government—would be bankrupt; because the states, under U.S. law, are not allowed to generate net debt. They must balance their books. The only agency in the United States which can generate government indebtedness, for purposes of growth, is the Federal government. That's what Roosevelt did. He used his tremendous power and influence, using facilities like a reorganized Reconstruction Finance Corp., and large-scale projects such as the TVA, to revive the U.S. economy, quite successfully. But, to do that, he had to organize Federal credit.

Now, our problem is this: At this point, in touch with state governments, governors, or other combinations in state governments in the United States—46 states are bankrupt, they can not possibly balance their books; they can not raise the taxes to balance their accounts. We have, in addition, a collapse of the railway system. At the end of January, unless government action occurs, the Amtrak system goes into liquidation. We now have a chain-reaction in our national air carri-

ers. United Airlines, American Airlines: If they are reorganized in bankruptcy, the tendency will be to make them competitors of airlines which have *not* gone bankrupt! Which will then go bankrupt, as a result of this kind of competition.

So therefore, we have, in the United States, no connection! We have no economy. There's no way of regularly scheduling the shipment of goods, from one part of the United States to the other, in a general way, the way we used to be able to do it. We *don't* have a national railway system. We don't have a national transport system. We have a potential, in the Pacific, for exports from the United States, and imports. But, if you go to Los Angeles, you can look at the port, you have all these cranes, these massive pieces of equipment, but you have no *efficient* way of moving that freight in and out of that port—inland, and so forth.

So, we have to do something, quickly. We need large-scale infrastructure projects: transportation, water management, power generation and distribution; the health-care systems, which are breaking down now; educational systems which are essentially worthless for any productive society.

The government must act. I've outlined it, in this booklet here (I guess some copies are available), on this infrastructure program.¹ But, the problem that I have with the government is—and they're right!—they say, "We like what you're proposing. We're prepared, on the state level, to do our part of these programs. But, there is no possibility of our financing these programs presently. It's up to the Federal government."

1. "LaRouche's Emergency Infrastructure Program for the United States," *EIR Special Report*, November 2002.

Now, what I'm going to have to do, which I'm doing, is taking some of the precedents from the 1930s and on, and I'm producing a draft piece of legislation, with a bunch of experts who have been through this mill before—senior people who know the ins and outs of the U.S. government history, on credit creation and management of large-scale projects. We're going to produce a single, short bill, which will probably have 20 pages in it; which will define exactly what the Congress and the President must do, or have authorization to do, to get the U.S. economy moving, and out of this crisis, as Roosevelt did before. Without that, we can not act.

We have this second problem: We have a President of the United States, who's sometimes fairly described by me, as a "shuttlecock President": That is, he does not have any comprehension of economic questions; he has no real understanding of international issues; he does not even know the names of places which he has to deal with, in many cases. He is all a bundle of emotion, and strong opinions, based on this bundle of emotion. Well, there are heads of state and government, who are sometimes like that, in the experience of various governments; and competent agencies within government learn how to deal with this problem. And, others have to cause the Chief, in this case, "Shuttlecock," to be pushed in the right direction.

The problem you have, at this time, is some people are pushing in the *wrong* direction—as you may have observed. We have people who want a war in Iraq, immediately. Others, who want a world empire, more slowly—the British style. These are negative factors, and they're pushing hard.

You have people, who are not willing to admit, that their programs have failed. The banks are not willing to admit, that they need banking reorganization, that they're bankrupt. And yet, J.P. Morgan Chase is bankrupt; Citibank is bankrupt; other major banks are bankrupt, in point of fact. We could deal with the problem, but we have to put them through reorganization. We're not going to shut down the banks. We're going to reorganize them, because we need banking facilities to maintain the mechanisms of finance inside the economy.

The Drive for War

So therefore, we have a fight now, in the month of January, when the Congress is being reassembled, from all kinds of past, discarded, and new parts. Then, Congress met for two days, and accomplished nothing, and left. They're going to have to meet again, on the 28th of January. At that time, they're going to have to face these questions, and the President is going to have to face these questions. You have—the 28th of January is the election in Israel, where Sharon is running, hopefully, to be defeated. And, that's a possibility, which we've been working on, with some modest approximation of success, but without guaranteed success so far.

We have people who want a war. They're strong in their opinions. They are people who do not want to admit, that the way they've been doing business can not continue. We have

a number of people, from various institutions, as in the real, professional military, who want no part of an Iraq war, or similar wars. Remember, the top level of our military, their virtue, is, they served largely as lieutenants, and captains, and majors in Vietnam. And they came out of that, continued in service, went to command school, and decided they never wanted to have the United States' military involved in something like Vietnam again. And, they recognized the Middle East as a potential desert equivalent of Vietnam. They want no part of it; it makes no sense; it's not justified; it's not necessary. So, we have a major commitment from the majority of institutional forces *inside* the United States, *against* precisely what some people are doing. Fortunately, right now the President himself is leaning to the advice of people like Colin Powell, and other people in institutions, who share the view, that we must not have an Iraq war. And the President was talking out of both sides of his mouth, but in point of fact, he is, at this moment—but the shuttlecock can always change—at this moment, he's committed to no war.

But, he and his advisors are committed to trying to continue this economic policy of his, stubbornly, and that will be a disaster. We can have a chain-reaction collapse *in* the U.S. economy, which can set off a worldwide collapse, in that respect.

So, the issue is going to be, to have a competent thrust, mobilized from within institutions around the Presidency. This includes people *in* government institutions; this means people outside government, who were formerly in government; it means channels of influence and advice, which converge upon the institution of the Presidency, and on the Congress. Neither party leadership is, at this time, any good. They're worthless. They're incapable of dealing with the problem, because they have ideologies, which no longer correspond to the reality.

Well, we also have a good side, apart from that: If we can get this thing through—some reasonable changes—by the 29th of January, and be reasonably assured that there is no danger of a war with Iraq, within, say, 60 or 90 days, we have some maneuvering room. At that point, the world will have to shift to what the world is shifting toward: economic growth.

The Strategic Triangle

The main engine for economic growth in the world today, is something that was mentioned here, in Delhi, by the Prime Minister of Russia, Yevgeni Primakov, in December of 1998: the idea of a "Strategic Triangle" of cooperation, of Russia, China, and India, together with other nations of Asia, for joint security and economic development. Primakov was dumped as Prime Minister, under pressure of various sources, because he made that proposal, which I had made earlier, and was very happy that he had made it.

However, now, the reality of that, is coming into place, piecemeal. You have seen the recent Phnom Penh conference on the subject of the Mekong development project. That is



The reality of a Strategic Triangle in Asia is coming into being, to the potential benefit of all the nations of the region. Here, Russian President Vladimir Putin's Asian diplomacy in December 2002: meeting with Chinese President Jiang Zemin in Beijing (left), and with Indian Prime Minister Atal Behari Vajpayee in New Delhi.

being pushed ahead by China. The Prime Minister of India attended there. Japan and Korea depend upon this program. Japan has no future in its present form: Its banking system is hopelessly bankrupt. Japan, however, remains, in core, basically an industrial economy, which depends upon neighboring areas, to which to sell products or deliver services, in return for receiving raw materials on which Japan's existence depends.

So therefore, we have at this time a tremendous potential, as typified by the trip of German Chancellor Schröder to Shanghai, on the occasion of the opening of the Shanghai to Shanghai airport magnetic levitation railway. We have vast projects in China, which in my view, are large economy: We have the Three Gorges Dam; you have the large railway system, or the magnetic levitation system programs; the opening of the desert lands. These are large-scale engineering projects, and in the case of Shanghai, the important thing there, is: Not only was the most advanced technology in the world, for transport, introduced and launched successfully. But, it was done in two years, under difficult engineering conditions—successfully, under the now-famous Commander Wu. With that kind of engineering mobilization and competence in large-scale projects, China can succeed in what it's doing.

But, also China and India are the two largest markets for Western Europe. China is the fastest-growing market in the world, for imports, high-technology imports. India is a very large market, for Germany, for example; as is China. Germany, France, and Italy, the keystone countries of continental Western Europe, are hopelessly bankrupt! That is, the total amount of tax revenues that they can obtain, has reached its limit. To increase tax rates more, would collapse the economy, and therefore, the tax-revenue base. Therefore, that can't work. The economies are operating below breakeven, as whole economies. They're collapsing; it can't work. Yet, France, Germany, and Italy typify countries in Europe, which

could readily mobilize themselves for technology-sharing projects, with countries in Asia.

Therefore, throughout the Eurasian continent, there's a tremendous potential for recovery; if we have a system of economy and political security, jointly among these nations, together with large-scale projects, recovery can occur.

If the United States takes the right turn. My experience is, in various countries, everyone is afraid of the United States. If the United States takes the right step, even though the United States is a junk-heap right now, and moves in a direction, takes the kind of initiative that is required, then, in my view, international bodies, international groupings will come together around this idea, and begin to do what has to be done. In that case, I see a bright future for humanity.

Of course, India is an extremely important part of this operation.

A Common Mission

This would mean, also, a change in political relations among nations. Just to conclude with this one point: The problem that you have, in India, for example, in dealing with the United States—particularly in the United States, as in Britain—you have a very popular, but pathological belief, the belief in the ideas of Thomas Hobbes and John Locke. The result is, that when I propose, as I proposed to circles of one former administration in the United States recently—I proposed this idea of cooperation with this Land-Bridge and Strategic Triangle program. They had a violent response, from some of the top people in the Democratic Party leadership. "No!" "Why not?" "You do not enter into long-term commitments of partnership, with countries which you do not control." The argument is, that there's an inherent, natural conflict among nations, such that you must operate on the basis of conflict-management, not on a sense of a common interest. My view is, on the contrary: that the reality of a common



Will the world's leaders unite in a common mission, great projects for development, to build a real future for New Delhi's children, and all children?

interest exists, if the mission-orientation for it exists.

India has problems. China has problems. Southeast Asia has problems. Russia has problems. Everyone has problems. If we find that there is some form of cooperation among sovereign nation-states, which will solve this problem, I would propose, that consciousness of that interest in a common mission can supersede this idea of Hobbesian-Lockean conflict that Kissinger used to push so strongly, and others pushed so strongly. That, in my view, is our greatest problem. I could say a great deal about many things pertaining to this, but, that's the point I think I would like to lay on the table.

We are in a crisis. We must not deceive ourselves: The existing system is gone. It will not return. We have the possibility of reorganizing the monetary system, financial systems. We have the needs; we have the markets; we have the potential. But, we have to have a decision to go into participation, jointly among nation-states, for cooperation in making these things work.

And, that's what I'll be fighting for, this month. On the

28th of this month, I shall give a State of the Union address on an international webcast.² The President of the United States will give one at 8 o'clock the same evening. We'll see what happens.

Dialogue With LaRouche

Some of the remarks and questions to Mr. LaRouche were inaudible on audiotape, and these have been abridged or paraphrased.

Moderator: Thank you, Mr. LaRouche. Now, this is open for discussion. The idea is to say your opinions, express your views for Mr. LaRouche. But, you can also ask questions, because he has taken it, as a mission, that in the midst of all this chaotic financial system, it is time for integration and cooperation. Now, I invite my colleagues to join in this discussion.

Bankruptcy and the Corporate Sector

Q: It's more a request for some more information, rather than a comment or a question. One of the issues, which is very important, is the issue of corporate governance. Because, you talk about bankruptcies of organizations and government, in the light of failing corporate sector, starting with Enron. Now, they talk about some kind of a problem in corporate governance, including the institution of auditing—the auditors are also important in the bankruptcies. So, what kind of reforms would you suggest for the corporate sector, so that the corporate governance becomes better, and they are accountable to shareholders? Because this is big with the political problems.

You are very fond of using the words “bankrupt” and “bankruptcies.” There are two kinds of bankruptcies. Maybe you should discuss the institutional bankruptcies and the further implications.

LaRouche: Okay. First of all, on the bankruptcy issue, I've got diagrams up there, but I don't need to draw diagrams. I can describe it to you, more effectively. Since 1966, after the change in culture in the United States began, and in England, you had the change in beginning of the U.S. war in Indochina, which coincided with the launching of the first Harold Wilson government in England, the United Kingdom. And this set forth a chain reaction of catastrophe, which has rotted out the world, since that time. The full force of it is felt in Europe and the Americas, less than it is in Asia, for obvious reasons.

Now, but since that time, in 1966—I trace things in terms of physical values, per capita and per square kilometer. And I measure physical values, against financial prices assigned to it, and monetary aggregate, circulated in support of increase

2. “The State of the Union: On the Subjects of Economy and Security,” *EIR*, Feb. 7, 2003.

of financial obligations—corporate, public, others—per capita, per square kilometer, around the world. During the same period of time, up until 2000, there was a slower rate of emission of monetary aggregate, as compared to financial aggregates. At the same time, especially since 1971, there had been, worldwide, a collapse in net, physical output—when you include infrastructure, per capita, per square kilometer, worldwide: in Europe, in the Americas, in Africa. We’ve reached the point, that this has become self-feeding. In the year 2000, the United States reached a point corresponding to what set off the hyperinflation in Germany in 1923. That is, when in order to maintain financial markets, to keep them from collapsing (because they are bankrupt), you print money or other monetary aggregate in place of regular issue of money; and the amount of monetary aggregate you have to issue, is greater than the amount of financial values you’re leveraging up, *then you have a hyperinflationary spiral*, like Weimar Germany, June to November, 1923.

That particular kind of crisis hit the United States then.

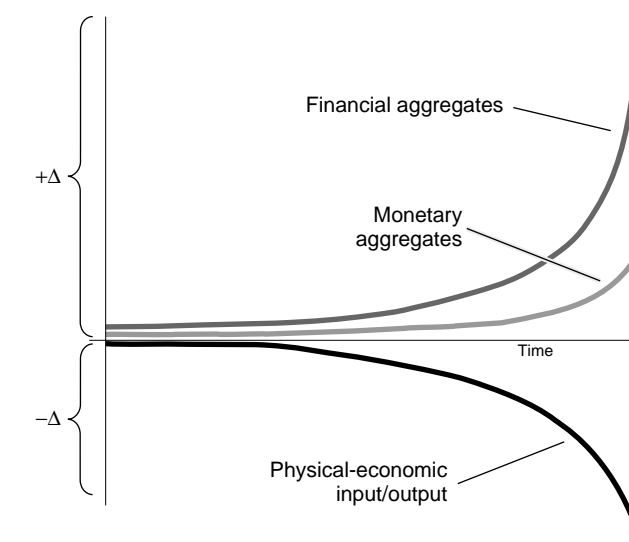
Now, remember how this was done. You have the case of Japan: Japan has been operating at a zero interest rate yen issue, overnight yen issue, for years. It has done this for the United States. It has done it; yen are borrowed overnight, at virtual zero percent borrowing cost. The borrowed yen are used to purchase dollars. The dollars then flood into the U.S. financial market, to subsidize the U.S. financial market. Germany was looted, similarly, of money, actual money—that is, real capital, as well as this kind of money; also, to prop up the U.S. financial market—while the U.S. economy was collapsing.

So, when you get into a hyperinflationary relationship among these three curves, you are coming to the end of the system [Figure 1]. It’s not a point, where you’re coming to a point where a numerical value says it will collapse: *It’s the rate of change, which creates a boundary condition you can not cross.* We’re at that point now. We’ve been at that point, actually, for two years.

But, because the United States is a *power*, the political power of the United States, its ability to intimidate other nations, means that it can survive longer than other people, as long as that power is maintained. That power came into question, was tested, on the idea of launching an Iraq war. The game against the Palestinians by Sharon, the proposed launching of the war, tested the credibility of the United States’ power. And, what happened was that Europe, despite its cowardice, had such strong resistance to this idea of the war, that, with *our* resistance, from *inside* the United States, which I was pressing for—“Stop this war. We can stop it. The Europeans want to stop, but they don’t have the courage to stop it. But, if the United States gives them an indication, that powerful forces in the United States want this war stopped, Europeans will join us.” And, that’s what happened! We stopped the war in September. We stopped it in October, November, December. We’re trying to stop it, still now, by the same

FIGURE 1

A Typical Collapse Function



method. If Sharon is defeated, we might really stop it. That’ll be decided on the 28th, right?

So, because of the U.S. political raw power—and I think every politician in any country, including India, can tell you what the muscle of the United States is, when it wants to force somebody to do something the country doesn’t want to do. As in the case of WTO: WTO was shoved on countries that wanted no part of it. But, the United States has the political power to intimidate nations, with the Pakistan threat, particularly in the case of the Afghanistan problems. Therefore, it’s possible to do that.

But, it’s come to the end of the line. And you have a President in the United States with no imagination, no competence, who makes mistakes; neither political party leadership is capable of making a competent decision. So, that’s what the problem is.

Now therefore, what do we have to do, in terms of this corporate structure? You have four kinds of business entities, private entities, apart from agriculture, that I’m concerned with (and I am concerned with agriculture, but that’s a somewhat different question). First, you have the private entrepreneur, who tends to be high-technology: That is, he’s probably an engineer, or he’s a skilled person of some other type—he’s developed a skill over years—who devotes his life to developing an entity about producing some kind of product or service. He’s not really interested in money primarily. Yes, he wants to have a profit. But, his concern is to build that business, and to make it successful and to make his product successful. These fellows work very hard. They will suffer through things for many years to make these small businesses work.

The strongest economies I know of, private economies, in Europe or the United States, are actually privately held things—not corporations; or at least, they're closely held corporations. For example, Italy has lost its big industries. Italy's export business has depended largely, in the northern seven provinces of Italy, has depended upon the private entrepreneur, who goes out with a technology-sharing approach, to neighboring countries. And, that's the main source of Italy's national income. In Germany, it is not the large corporation, that's the real killer, it is the private industry, the private entrepreneur, who is key. In the United States, the same thing used to be true.

So thus, I take as the first category, the private entrepreneur. He is the good performer. You pick a good one out, you give them encouragement, you give them opportunity, you're going to get a result. Within his capability. So, help him; educate him. The most important private entrepreneur is the one with the good scientific or engineering education. Because, he's the one that will actually give you the best results, in developing new kinds of products, that the large corporation would never take the risk of developing. And, innovations of that type.

Then, you have the honest, public corporation, which has a physical product orientation/service orientation. Those are useful.

Then, you have, at the other extreme, the opposite extreme, you have the purely parasitic corporation, which exists as purely a stockholder method of looting the economy—Enron, for example. Enron is an example of the worst kind of corporation you can have. We have too many of those kind of things.

And then, you have those which share a bit of both the useful corporation, and the not so useful.

Protection, Not Privatization

So therefore, I think—I'm against privatization, obviously, for that reason. That is, privatization of the economy. I think the government, first of all, has to determine it's responsible, morally, to set conditions which make the financial system conform to the requirements of the physical economy. And prevent the debt from running out of control, as it has done worldwide now. Secondly, government has to find ways of mobilizing financial means, to support growth in areas which are in the national interest, and know how to use various private-sector sources' potentials, to use that money efficiently. Government also has to provide the regulation, to protect nascent industries. This privatization and this WTO is killing us! It's an act of insanity! It's an act of global insanity!

For example, the question of capital: People talk about privatization. They don't talk about capital, these privatizers! I'll give you the example of the United States: To transform a newborn child, into a fully efficient young adult: 25 years. That is largely a net investment in that child, by that family household and by the state, with funding facilities.

To build anything, of any importance, is capital-intensive! Modern economy is capital-intensive. To develop agriculture, you've got to prepare the land; you've got to give the farmer three to seven years, or more, to develop his product line. It's a capital investment! And therefore, you must have regulation to protect capital investment—this kind of useful capital investment; otherwise, you won't have it. If you have free trade, then the prices drop down to *below* the cost of maintaining the capital necessary, and that's the problem.

So, government has to become, again, protectionist, in the way we were between 1946 and 1958, in particular, in the post-war reconstruction. What was done here in India, under the initial stage, under Nehru.

So, the problem we have, in this respect, is we have ideas which become popularized, which have victimized governments through the political parties. The political parties say, "We *have* to go to privatization. More and more privatization." And I say, "What do you mean by privatization? You want good privatization, or bad privatization? Do you want good government regulation, or bad government regulation?" There has to be a moral decision, which is a practical one.

So, that's my view on the matter. What we need to do, in my view, is—look: In the case of the recovery by Roosevelt, take the case of TVA. The whole area that Roosevelt put the TVA into, was a *desperately* poor area! And yet, by the beginning of the war, the TVA was the big driver of a lot of the economy. We could not have won World War II, without the TVA! Oak Ridge [Tennessee], for example.

So, my view is, that certain large-scale projects, essential infrastructure projects, essential ones, which government is capable of handling—government is very poor at small projects, small infrastructure projects. Government is almost indispensable in large-scale infrastructure projects, like the TVA, for example. Because you bring in the private contractors, and bring them in on the basis of large projects. But, the small projects, government management of small projects, has been a nightmare. In the United States, the way we handle it, effectively, is we dump the government side of small projects on the hands of the state organizations or on the state and municipal organizations. You want to have somebody who is close to the operation, to exert some control over the thing—accountability.

So, that's my view. We have to rethink, not go with the current drift; the current system is finished. Politicians have not yet caught up with that reality. Many of them are still trying to play by the rules of the game of the World Bank, and IMF, and so forth. That's a problem you have in India, as in other countries. But, I think that those of us who are morally responsible, have to think on two levels: We have to understand, that that is the current drift in politics' inertia. You have to deal with that. But, you have to realize, that someone's going to come screaming into your office, if you're a government bureaucrat, and say, "It's not working." And what do you have to offer? What do you have to suggest? So, I think

that today's government official and economist has to wear those two hats. I take the one side—I know the other side, but I don't spend much time on it. I say to the economist and to the government official: "Think with two hats. One hat is, to think about the way it should be. The other is, to recognize that you're supposed to wear the hat of what they tell you now is current policy." And you hope for the day, when you can take off the one hat, and put on the other.

What Will It Take To Wake People Up?

Moderator: There is a weekly Internet audio talk show, "The LaRouche Show," every Saturday, 3-4 p.m. Eastern Standard Time, U.S.A.

[pointing to the next speaker] Yes—

Q: I wanted to thank you for this very lucid and courageous overview you have just given us, as you always do. And, I have two questions, which are comments at the same time.

The first is: How do you explain the apparent lack of connection between what's happened to the economy, and the enormous potential—very insufficiently tapped potential—of the new and emerging technologies, which as you know have been developed over the last decades, particularly in government military-connected research departments. I'm sure you're aware of many of the things that lie in store, in the "psych," among other repositories of new and advanced technology. So, it seems to be unable to make any real difference in the current sorry state of the economy, even though such major breakthroughs should give us—in the field of energy production, new materials, and so on and so forth—should give us a new lease on life.

And, the second question is: Don't you think that, unfortunately, what you have just been saying about the actual state of bankruptcy of the economy, is not realized, perceived, or understood—I would say—by 99% of the people, worldwide? I mean, most of the people you talk to, will be totally surprised if you say such things. They will say that, "Well, we are going through a crisis. We are going through a period of adjustment. We have some difficulty, but things are already picking up. And, you know, even if we reach 10% unemployment, prosperity is there for all to see, and, you know, there is no reason to really become agitated about it." So, don't you think it will take a *real* collapse—I mean in the sense of a global depression—to make people suddenly jump up and get to work?

LaRouche: I don't believe in that billiard ball theory of politics that you referred to: that crisis pushes populations to spontaneously recognize new possibilities. Crises frighten people. They frighten most populations.

The Issue Is Leadership

The issue is—I'll take the second part of your question, first, and then get back to the first. The issue here is leadership. People are small. People are, generally, at their largest when

they think about raising families, and they're optimistic about raising families. An optimistic set of parents thinks about what they're doing, in terms of the outcome which will be experienced by their grandchildren. This applies often to private life, as well as in respect to public life; or, at least, community life, or things of that sort. They think about making society better for their grandchildren. It's one of the qualities that distinguishes—this optimism—that distinguishes the healthy and happy human being, at a minimum.

Now, what happens is, you confront a nation, a people, who have not been sufficiently developed: not only lacking intellectual development, of technology, knowledge of this, and so forth; which is—really despite all this proliferation of information, people know less today, than they knew generally 30 years ago.

So, the problem is leadership. And, you have cases—Roosevelt, for example. You have the turnabout, at least temporarily, in France under Charles de Gaulle. In France, before Charles de Gaulle became, for a second time, President of France, France was decaying, and you had a virtual fascist mob that was about to turn the place into a terrible dictatorship. De Gaulle then made this speech, as a leader, coming back as a wartime hero, saying, "*Aidez-moi*" ["Help me"], to the French population. And they supported him! He turned that into what was—at least for a period of time, until the assassination of Kennedy, which turned things against de Gaulle's plans, and so on—he turned that into a revitalization of France.

Roosevelt, in the United States: In 1933, Hitler was put into power by British and American bankers, because they wanted a particular policy, at that time. But, in the same period, they tried to assassinate President-elect Roosevelt; didn't work. But, Roosevelt transformed the United States into what essentially saved European civilization, in the course of the war. Once Roosevelt was dead, and we had a tiny intellect, and a mean-spirited one, Truman, in there, things began to go in a different direction.

My experience, in general, just to take those examples, is that we need people to take the responsibilities and risks of leadership. I often use the case of Jeanne d'Arc, as an example of this. Jeanne d'Arc, a simple peasant girl—maybe not so simple—went to a stupid Dauphin, and said, "Stupid Dauphin, I come to tell you to become a real King." And, the Dauphin said, "What do you want from me?" "I want nothing from you! God wants you to become a real King, you stupid King!" And, as a result of that, with her sacrifice, France became the first modern nation-state under Louis XI, with the help of Jacques Coeur.

And thus, you find, at all levels—sometimes it's not just the intellectual level, it's simply the commitment of leadership, a good soul, who inspires their neighbors to become inspired, to change things, in face of a crisis. Sometimes the same result requires, not only the passion of a Jeanne d'Arc, it requires, also, the wisdom to know how to carry out the job.

And my concern has been, and it is now, to rejuvenate the supply of future leaders among youths in the 18- to 25-year generation. Because, we have a shortage of people who think like leaders. We destroyed and demoralized a whole generation, that came into maturity after 1964. We demoralized them, and therefore, they are not necessarily capable, generally, of coping with the crisis that's hitting them now. I find that, among the 18 to 25 group, that I work with as a youth movement—Yes! They grab, because they say, “We are now the no-future generation. You gave us no future! We have to have a future.” They're committed to find an alternative to no future. [tape break]. . .

Science-Driver Technologies

. . . So therefore, we're going to need nuclear power. The opposition to that typifies it. China has its own version of a high-temperature gas-cooled reactor. That kind of reactor, in the 100 to 220 megawatt-type—the so-called “Jülich type”—could generate synthetic hydrogen fuels, in a local area, for which the waste produce of the fuel is water—not exactly a pollutant. And, that would be the ideal thing for India; it's ideal for something like Korea; it's ideal for the deep interior of China.

And, yes, it's not a matter of the quantity of oil. But, oil you can get from the Middle East, which you can get for the next 80 years if they don't burn the place up; it will be the cheapest oil in the world for about 80 years to come. Otherwise, oil prices will tend to rise; the cost of getting oil will become more and more marginal physically, and therefore, new technologies.

But, this is reality. The fact that highway transportation is *terribly* inefficient. Modern rail transportation is extremely efficient, relative—energy, everything else. Maglev is more efficient than friction rail.

So, the opposition to these technologies, and the lack of money to develop them; the lack of government budgets and backing to push the programs through, is the reason we have not made a lot of progress we could have made, in the meantime. I think, that China's going to a manned Moon landing: extremely important. The space program of India is extremely important, because it creates the environment of a science-driver program.

Again, but it's leadership. We have to have the leadership, to respond to this situation.

The Indispensable Role of the Nation-State

Q: I just heard that the capacity of the governments in the European countries—Italy, Germany, France—in dealing with the crisis situations is limited, because of the high rate of taxes, they can not raise the resources.

In the European Monetary Union, is a better place to deal with the present situation, than with the individual governments. Supposing they work as a bloc, of the governments. Then, supposing in the future, if you have the Asian Monetary

Union—including Japan, China, India; and form a monetary union of the type we have in Europe now. Then of course, there are the different trade blocs, that access to the markets, of these different trade blocs is not available to other countries, or other blocs. So, the capacity to get income is limited in a particular way.

I imagine some of these stable monetary unions, among the countries, may be to a certain extent, helpful to deal with the crisis situations, that we're talking about.

LaRouche: I think that the European Union, in its present form, is going to disintegrate very soon. It's not viable. The Maastricht agreements will be broken. All these agreements—they can't last.

You can not eliminate the nation-state, without destroying the world. The nation-state is the chief cause for the improvement of the condition of humanity, to the extent that it has happened, over the past 600 years. The reason, essentially, is capital-formation.

See, the difference is this: In the 15th Century, the policy was introduced, that government has no right to exist, unless the government is an efficient defender and promoter of the general welfare of, not only the current population as a whole, but future generations of posterity. This mandate upon government, and the idea of the sovereignty of the state, as opposed to the actually imperial form which is characteristic of feudalism and empires and so forth, was the difference. It was under these conditions, that it became possible, through states, to develop modern economies, and to improve the condition of mankind. Without that, there would have been no improvement.

What has happened is, those who wanted to have a new empire, especially from the English-speaking Europeans, and the United States: They got the idea. Bertrand Russell is an example of that. H.G. Wells—have a world empire; get rid of these governments; set up a Utopia. So, they said, “Let's destroy the nation-state.” And Russell said, explicitly, “We have to use nuclear terror, the terror of nuclear weapons, to force governments to give up their sovereignty and accept world government.”

What has happened, since 1964, there has been a deliberate, conscious effort, among certain influential circles, inside the Commonwealth—that is, the British monarchy section of the Commonwealth, and the United States—to do this. The war party, in the United States, is part of that. The generals are against war. But the Utopians are for war. Hmm? A bunch of draft dodgers, are big warriors in the United States. Dick Cheney: draft dodger; Vietnam War draft dodger—Vice President of the United States.

So, the problem is, we have to go back to the nation-state. But, we have to understand, the problem we have to eliminate with the nation-state: We have to get past the idea that nation-state sovereignty is a cause for an objective conflict resolution situation. For example, take the case of the cooperation: Germany, on this magnetic levitation and a few other projects,

which are technology-sharing projects between Germany and China. Perfect examples: Germany has something it can produce well, in a certain technology that it has. China doesn't have parts of that technology. Through technology-sharing, Germany, which is bankrupt because of low employment, can increase its employment to supply China, with something China needs, which will help China increase its income, and upgrade the level of its employment and efficiency of its economy.

So therefore, in this case, for that cooperation between two nation-states, you have a benefit to both. However, to do that, Germany must now create new credit, which only a state can do: long-term credit, 25-year credit, 50-year credit. It can do that. Treaty agreements among governments, for state-to-state credit issuance, on long-term projects of mutual interest, or category projects of mutual interest, will be the basis on which we'll get an economic revival. The other sections of the economy will automatically revive in response to any revival from these sectors.

Our major concern should be, right now, to get the level of productive employment up, with as much technology added to it as possible, to bring the level of employment and income up to the point that governments can balance their budgets and meet their capital requirements for infrastructure. And, I don't see any reason we can't do that. It's just a question of will. We're up against, as I said with the two-hat thing, that I mentioned earlier—we're up against the fact that governments are wearing a hat, which says to them, "Now, we are committed to WTO. We are committed to privatization. We are committed to reducing the role of government," etc., etc. That's the hat. If you're working in government today, you have to deal with the fact, that that's the official line. But, you're going to come to a point very soon—and I should think probably in the course of this month, a lot of governments are going to see that: that you're going to have to go in a different direction, *back* to a different kind of conception, of the nation-state. And you're going to have to mobilize populations around new conceptions of long-term objectives.

As I said, it's a leadership question. If populations are won to an idea—and government is the most efficient agency for winning a population to an idea—if a good leader of government, or leaders of government, go out to the people and say, "Here's the problem"; the people, "You're right! We got the problem!" "Here's what you're to do to solve the problem." Then, you're going to get the clamor from the population: "How is it going to work?" And, good government will show the people, and convince them, how it can work. Or, maybe make a few changes based on some feedback from the population. That's the way we always worked in the United States, when we were working best. It'll happen again.

So, I'm optimistic. I say things, which I know have to happen, even though I agree, as you expressed this, that at present, it would seem that the cause is almost impossible.

But, I assure you, the cause is possible, because the alternative is not going to work.

This Is No 'Cyclical Crisis'

Q: The point that interests me is, that between 1992 and 1999, the United States witnessed one of the longest periods of fairly high rate of growth by the U.S. standard. Especially, in the post-Civil War—since 1865, which was one of the longest spells of fairly good upswing, then. That ultimately resulted, together with euphoria about new technology, high technology, and fairly over-expectation of growth in the United States. As a result, companies went on expanding far beyond the market. Finally, when they found that demand splash started hitting them, many of them started indulging in less-than-moral practices. As a result, the government, managers, the financial system, went into what you call bankruptcy.

We did go through one more phase of a cycle. Because, you mentioned the idea that Roosevelt used the famous TVA, he used the state exchequer to get that system authorized. And you are recommending something similar to that. And, the question, that I'm asking is: As some classical economists would say, is this one more phase of the business cycle, where if you go too far astray, the market will adjust, prices will be re-adjusted, investment will be relocated?

LaRouche: That's what you hear all the time. But, this is called "denial." It's like the man whose wife left him in anger three years ago, and he's still setting dinner for her, every night. He's probably married somebody else by now.

First of all, the business cycle largely occurs only to the extent that the system is viable. And becomes like an elasticity effect in the system.

Well, this is not that. There was no recovery in the United States from 1992-99. What there was, was two things: First of all, the United States took the opportunity of the collapse of the Soviet Union, to engage in one of the biggest looting operations in history. And, what came into the United States as actual wealth, is largely a net result of looting the Soviet Union, and some other countries. What was growth—yes, we printed a lot of money.

What happened is, Clinton came into the government in the 1992 election, in 1993. Well, Bill was a sort of a nice guy, sometimes; he was a little bit fast with the ladies, but a nice guy. He is also probably the brightest man we had in the Presidency in the 20th Century. *But*, his commitment to principle was somewhat in question. He tried to do a few things, but if it was too much of a problem to him, he'd drop it, and go the other way. And, he had a wife who was even worse than he was. She was dangerous—actually dangerous; her health-care legislation was one of the greatest atrocities ever put forth in the name of legislation—2,000 pages of deeds, do's, and don'ts. You'll never get it through, like that!

The Hill-Burton Act of 1946 was only a few pages; and



LaRouche first visited India as a U.S. soldier in 1945-46, and has had a special relationship to that nation ever since. Here, street vendors in New Delhi.

here a whole health policy, which actually improved the health of the United States, from then, until 1972-73, was a few pages! A good piece of legislation is never complicated. You get a good piece of legislation, get it through the government; adopt it; go to work on it; and then, let the experts make it work.

What we did, was, Bill knew that Bush had gone down, because the U.S. economy was going down. It wasn't Bush's problem. Bush didn't understand what economy was, let alone try to ruin it. What Bill did, under the influence of the Federal Reserve System, which ran this operation—remember, the Federal Reserve System, from 1979 through the present time, has been run by two guys: Paul Volcker and Alan Greenspan, one successor worse than the former. And, they'd run the biggest swindles imaginable.

For example, most of the reports on U.S. output, GDP—completely fake. Look at the Quality Adjustment Index: 40-50% per year *fraud*, in the actual reporting on sales, by simply saying, “No. This product has improved 40%. Therefore, instead of showing what the actual value of the product is, we'll now change it by the Quality Adjustment Factor.” Fake. The other fakery was, Y2K. “The world is going to shut down in the year 2000, because the computers won't be able—the accounting system won't be able to get over the year 2000.” Right? So, what they did—this was done by Alan Greenspan—they pumped vast amounts of money—and the President went along with this stuff, this fakery—vast amounts of money into corporations that never made a nickel. But, they were being traded on the market at spectacular values. You'd have a new issue go on the market: IT. Boom! The stock goes

up to astronomical values. You'd get billionaires coming out of shoe stores, essentially, with this stuff.

So, what happened is, the bubble went on, until 1996-98, approximately. Then, we had the first effect, was the so-called “Asia Crisis” of 1997, with the international effects of this bubble. Nineteen ninety-eight, the last phase of the big looting of the former Soviet Union occurred, in the form of the GKO speculation. Again, hedge-fund speculation. At that point, the system was finished.

So then, Clinton said, then, “LaRouche is right. We're going to have to have monetary reform.” But then, somebody scared him, in the Washington conference of October 1998; different decisions were made. The decision was, to bring in George Soros. And George Soros said, “Make a wall of money.” Because the next crisis they faced, was the Brazil crisis, due for February of the year 1999. The way they dealt with the Brazil crisis, and generally, is, they said, “Wall of money. Generate a wall of money—monetary emission—and flood the world with it.”

Also, with what should have been stable institutions, which were the Fannie Mae and Freddie Mac, we built up housing bubbles. Now, you find that the United Kingdom is about to go under, because of the housing bubble. It's already collapsing. Housing bubbles in the West Coast, California; housing bubbles around Washington; other housing bubbles. We are facing a *multibillion*-dollar collapse in each of these areas.

So, the system never did make profits. But, *if you print money*, the kind of curve I described, you can create the appearance, the illusion. But, if you look at all this period, from

1977 on, and take the lower 80% of family-income brackets, and look at the actual physical content of consumption of households in the lower 80% of family-income brackets, the collapse has been precipitous.

So, what you had, is an upper 20%—and everything was the upper 20%, as long as the bubble went on—and U.S. politics were based on the so-called “middle.” German politics, French politics, U.S. politics. The “middle.” The “middle.” “Go to suburbia, to the conservative middle class,” within the upper 20%. Now, what happened is, about half of the upper 20% has now gotten into trouble, and lost vast amounts of money in the market in the past year and a half.

So now, it's over. So, it never happened! But, this is what happens, as in the John Law bubble in the 18th Century, and the South Sea Island bubble, the same kind of thing. And, this kind of fakery goes on. And people use this, politically, to say, “Well, it's all right. Don't you see? It's going to bounce back. It's going to bounce.” It's not going to bounce—not going to bounce. Cyclical crises do not exist at this time. They may get cyclical little ripples, here and there, but there are no cyclical economic crises. This is systemic. This is the end of the system. You can not convert the most advanced nations in the world—what *had been* the most advanced nations in the world, in Europe and the Americas—you can not convert these economies, from what had been the *leading productive economies* in the world, per capita and per square kilometer, into *consumer societies, living like parasites sucking the blood of the developing sector*, and trying to set up a new imperialism at the same time: It can not be done. That system doesn't work.

You can take the physical economy, right now, and, as of this month, we can start a recovery. If the President of the United States would agree with me, we could start a recovery. Simply by saying, “Put the thing into bankruptcy. Let's go back to what Roosevelt did.”

There Are Solutions

Moderator: Anybody else like to intervene? We've had an hour and a half of productive discussion. Most of the time, we have been exposed to the visiting scholars coming and telling us about economics, also with discussion. Some of them widen the discussion to the political economy. But, it's not always we have someone like Mr. LaRouche, who widens the discussion to the direct politics, history, and philosophy, all combined into one. I do not know—although I do find from one of the friends of Mr. LaRouche, Dr. S.B. Gupta, a member of the Planning Commission, that, many of the prophecies made by LaRouche look atrocious, when he pronounces his bombs, like say, the European economic council will disintegrate. But many of them, eventually, are known to have come true!

Now, this could be, in many respects, prophetic. I do not know whether—whether all of us will be happy if such a thing does happen, but it's quite often, that things spoken in the

beginning may appear to be quite unthinkable, but it does happen. And, I was also simultaneously reading a few things, which is the latest, “LaRouche Emergency Infrastructure Program for the U.S.,” and many more things that are for sale over there. I'll pass around some of this, for my colleagues in the library. You can read later on.

May I dare to use this opportunity to thank Mr. Lyndon LaRouche for providing to us a broader insight into what is happening to the world of economic systems, and in particular the financial systems?

Thank you very much. I hope you also enjoyed the interactions with my colleagues. And, as I understand, yours is a mission. You have to communicate these ideas to the larger number of people all over the world. And, we are thankful that you choose, in Delhi, our institution. So, thank you once again.

LaRouche: I first reached India—some of you know this, but I first reached India, in the capacity of a U.S. soldier, in 1945-46. I was in Calcutta, in some very relevant weeks, among other things, and became deeply involved in the cause of Indian independence, at that time; which was not very discreet for an American soldier, even though most American soldiers were sympathetic at that point to the idea. But, I've been involved in this. That I've been more active again, since the middle of the 1970s, when I became involved with Mrs. Gandhi's efforts. And, she was a very impressive figure, and we had this “Forty-Year Plan for the Development of India”—this 40-year plan, largely infrastructure.

And, India is one of the countries, which I have a special relationship to, because of history, and also cultural questions and things of that sort. So, I'm very happy, if I in any way, on this occasion, as on others, have contributed to enriching the powers at India's disposal.

Moderator: Thank you. I hope you will be able to come again to India. And, if you do come, well, some of us might remember many of these things. We can have an exchange of notes on the developments in the world. I propose a vote of thanks to our distinguished visitors. I hope you will all clap him [applause]. Hold back! On this positive note, with which he's saying, that there are solutions. Unfortunately, the government is not always looking at the right solution. But then, there is a popular saying, sir, defined by the Britishers: “The Americans always do the right thing—after trying everything else!”

★ LAROCHE IN 2004 ★

www.larouchein2004.com

Paid for by LaRouche in 2004.