Hartmut Cramer

Wilhelm Lautenbach's Concept Of Productive Credit Creation

Hartmut Cramer, of EIR*'s bureau in Wiesbaden, Germany, opened the March 23 panel of the conference. Subheads have been added.*

Yesterday we got a very impressive overview of the fantastic chances of the Eurasian Land-Bridge, in general, and its various infrastructural projects, in particular. This brings us to the question: "Who is going to pay for all this?" We are going to deal exactly with the answer to that simple, but absolutely crucial question this morning.

As you all know, in principle the answer is: the "New Bretton Woods," as defined by Lyndon LaRouche. In this context I refer especially to his recent studies *Economics: The End of a Delusion*, and his *Emergency Infrastructure Program for the U.S.*, dubbed "Super-TVA"; but also to his paper "On a Basket of Hard Commodities: Trade Without Currency," written in the Summer of 2000, in which LaRouche dealt with the actual problem of "bridging" the—hopefully very short—time between the ultimate physical breakdown of the hopelessly bankrupt IMF system, and the effective launching of a "New Bretton Woods."

For time reasons, I can only mention some basic elements of these concepts: In "Trade Without Currency," LaRouche outlined a two-stage strategy toward the urgently needed global monetary reform. Since the "most stubborn resistance" to rebuilding a stable monetary system is coming from the United States—a forecast proven correct just now with Washington's crazy war—LaRouche argued that a feasible reform, if it is to occur at all, is "almost certain to come in two successive, regional and global phases." The first phase, actually a revival of the Asian Monetary Fund, would not only be intended as a defense against financial-warfare, but also to promote urgently needed measures of hard-commodity forms of combined trade and long-term capital improvements among especially Asian nations; other regional groupings, of course, would also join and cooperate in various regions of the world. The second stage would be the re-establishment of an effectively global monetary organization—LaRouche's "New Bretton Woods."

As with all effectively functioning global monetary systems, this new one has to be a protective and dirigistic one; a gold-reserve monetary system, with fixed exchange rates, and temporary capital controls. Backed by such a solid "backbone," which gives Federal governments the necessary means to efficiently beat back speculative attacks, and to steer the economy into the right, physical direction, a sovereign state can use existing—or establish new—relevant financial institutions as a means for "productive credit creation." Exemplary is the now famous Kreditanstalt für Wiederaufbau [Reconstruction Finance Agency] here in Germany—just copied by the Italian government to launch big infrastructure projects—which has been proven to be a very effective instrument to issue unlimited, state-backed credits for special purposes, in order to serve the General Welfare.

I am now going to present to you exactly that beautiful instrument which—in the framework of such a "New Bretton Woods System"—enables us not only to realize the necessary big projects to create enough jobs and physical wealth, but to also vastly increase productivity on a national and international scale. As a crucial example, I will use the fight which raged in Germany in the beginning of the 1930s, when it became clearer by the day that under conditions of the Great Depression, a continuation of the catastrophic deflationary policy—clearly dictated by the Anglo-American financial powers—would lead to the destruction of the state, with Hitler's Nazi Party ready to take over.

I chose this example, because here we can study two things, both of which are of crucial importance for us today: that a depression, in principle, can be overcome, if the right ideas are at hand and the necessary political will is mustered—that is, the example of U.S. President Franklin Delano Roosevelt, whose heritage LaRouche is reviving today; the other, contrary lesson is that of Germany in the early 1930s, which could have gone the same way, but did not, as we all know.

Ironically, Germany at that time had all the intellectual means—the co-founder of the "American System" of political economy, Friedrich List, would have called it the mental power, or capital of mind, *das geistige Kapital*—to overcome the crisis. Above all, because there existed excellent econo-

Wilhelm Lautenbach, a senior advisor in the Economics Ministry in Berlin, presented a paper at a secret meeting of the Friedrich List Society in 1931, which pointed the way to a solution of Germany's economic and financial crisis: a solution which would have prevented Hitler's rise to power.

mists in all social and political layers, who were true "Listians," and there even existed a Friedrich List Society, which was not just an academic debating club, but whose members—high-ranking economists, bankers, industrialists, politicians, even members of government—forcefully intervened into the debate and the decision-making process concerning political-economic questions. In the early '30s, the problem in Germany—as well as in Europe and the world at large—was obvious: How to overcome the Great Depression in time, i.e., before fascism takes over.

Lautenbach vs. Schacht

In September of 1931, the Friedrich List Society held a top-secret seminar in Berlin with its key members—about 30 prominent economists, bankers, and politicians—to discuss how to generate productive credit in Germany, since the international markets didn't provide any capital at all, at least not for productive purposes. At this seminar, Dr. Wilhelm Lautenbach, then a senior ministerial advisor in the Economics Ministry in Berlin, and by far the most competent among the German economists in the List tradition, presented a ground-breaking paper with the provocative title: "The Possibilities of Boosting Economic Activity by Means of Investment and Expansion of Credit."

Before I present to you the key concept of this crucial paper, whose importance is increasing now day by day—that is why Helga Zepp-LaRouche during the last Federal elections launched her "Lautenbach Campaign" to overcome the present crisis—let's have a closer look at this Dr. Wilhelm Lautenbach.

He was a universally educated person. Born in 1891 in the Harz region of northern Germany, he attended the humanistic gymnasium in Goslar and Brunswick—the city of Gauss—and after that went to the famous University of Göttingen, where he initially studied mathematics and natural sciences, until he settled on the field of statecraft and law, which he studied also in Geneva and Berlin. Already his school and university education laid the basis for the fact that he, who was to become a brilliant economist and acknowledged expert on all matters of credit and finance, did so not as a simple "money theoretician"—a "monetarist"—but he became an outstanding representative of the very tradition of *physical economy,* dating back to Humboldt and Leibniz.

Lautenbach himself wrote in a 1941 *curriculum vitae,* which is part of his personal papers to be found today at the Federal Archive in Koblenz that in his various functions in the Economics Ministry, which he had joined immediately after he got his doctorate in 1919—naturally World War I had interrupted his studies—that he "more and more had to deal with general economic questions, so that in about 1924 I became the advisor to the deputy minister and the minister himself."

As his ideas and his exceptional character will show, Lautenbach emerged to be something like the "political economic knowledge and conscience" of Weimar Germany, which, because of the massive political pressure from outside (the Versailles Treaty, and physically unbearable payments of reparations; both measures are similar to today's infamous "IMF conditionalities"), was in an almost hopeless situation. After the Great Depression had manifested itself in October 1929, and especially after the disastrous banking crisis in Germany in the Summer of 1931, which shattered the very foundations of the global financial system, it was clear that something had to be done immediately, and in a big way. Unemployment in Germany already at the end of 1930 was way above 4 million, so that Hitler's Nazi Party, which before 1929 was still one of several small fascist groups, at the beginning of the 1930s became a very serious threat to the fragile German democracy. Already, the specter of about 7 million unemployed by the Winter of 1931 was painted on the wall!

The problem which had to be solved in that situation, was very similar to the one with which we are confronted today: If mass unemployment is not to be abolished through stimulating the physical economy in a targetted and comprehensive way, society is threatened with complete social, economic, and political chaos.

Concretely this meant that the Nazi Party would take over, which had gained enormous influence in the decisive field of economic and financial policy, after Hjalmar Schacht had left his position as head of the central bank in March 1930, and openly campaigned—first in England and the United States, then in Germany—for Hitler. With that, Hitler got a big boost especially in the financial centers of London and New York, since Schacht was virtually their "man on the scene," as his obsequious letters to the powerful governor of the Bank of England, Montagu Norman, attest. While president of the Reichsbank, Schacht, on a daily basis, had telephone conversations with Norman about what to do. Montagu Norman, by the way, headed the British central bank for a quarter century—from 1920 to 1945—and in this function exercised more power on global financial policy than even Federal Reserve Chief Alan Greenspan today.

Already during the 1920s, Lautenbach emerged as the intimate enemy of Schacht, since a compromise between the financial and economic policy of the two was totally impossible. Schacht's purely monetarist policy of scarce money, which additionally was fine-tuned with the Anglo-American financial powers, strangled production more and more, and threatened to ruin Germany economically and politically. But this didn't prevent Schacht at all from radically turning around immediately after Hitler—i.e., Schacht—took power, and unleashing the other, no less dangerous monetarist variant that of "loose money"—for unproductive measures to foster armament. This, he even "pre-financed" with an outright swindle, his infamous Mefo-bills.

On the contrary, Lautenbach, especially in the crucial years, wanted to stimulate production with effective means, and by this curb mass unemployment. In Lautenbach's own words, this sounds as follows: "Since 1930 I had presented to my chiefs [in the Economics Ministry] large-scale job creation projects again and again, but the only thing I could accomplish was that an exposé, thought to be a proposal for the government on job creation, became the topic of a discussion at the Friedrich List Society in September 1931 shortly before the English devaluation at the request of deputy minister Trendelenburg and Reichsbank head Luther. Although initially the participants of this seminar were vigorously opposed to the basic idea and the dimension of this project, at the end of the seminar they agreed, with the exception of very few. Nevertheless, this project vanished again, because the government did not have the courage to act decisively."

The Secret Meeting

This discussion at the Friedrich List Society, which took place Sept. 16 and 17, 1931 in Berlin in the building of the Reichsbank, I want to present to you now, since in an extraordinary way, it clarifies the very key to the solution of the problem: Lautenbach's concept of "generating productive credit." Even though "only" a senior ministerial official, Lautenbach was the main speaker at this secret meeting of about 30 top people, among them Reichsbank head Luther, the deputy ministers Schaeffer (Finance) and Trendelenburg (Economic), as well as the leading economists and some top politicians and bankers. The fact that all participants were members of the Friedrich List Society is a clear proof of the enormous political weight of this political body.

Lautenbach, a very active member of this society, had been chosen as the main speaker for this urgent secret conference, put together on very short notice, for two reasons. First, far beyond his ministry, he had earned a reputation as an "extremely sharp, although not always convenient expert on currency and financial matters"; secondly, because since quite some time, he had developed original, indeed bold ideas concerning the solution to the pressing problem at hand. Just the title of his paper, which was only given to the participants at the very beginning of this seminar, was then (in the "dictatorship of reparations" of Versailles, like today's "dictatorship of quotas" of Maastricht) politically outrageous: "The Possibilities of Boosting Economic Activity by Means of Investments and Expansion of Credit."

Lautenbach's argumentation is as scientifically brilliant, as convincingly clear, and—against the background of the catastrophically deflationary policy in Germany, as well as also in England and the United States then—polemically sharp. He writes: "The natural course for overcoming an economic and financial emergency is . . . not to limit economic activity, but to increase it." He distinguished two types of emergencies: On the one hand, natural catastrophies, and situations during and after wars, in which the demand to increase production is obvious; on the other hand there are economic and financial emergencies of national and international dimensions, in which it is clear that "we should and want to produce more. But the market, the sole regulator of the capitalist economy, does not provide any obvious positive directives." Lautenbach then deals with the solution, then and now, to this acute problem, in the following way.

After having discarded the usual means to fight a crisis (budget cuts, tax reductions, curbs in public expenditure) as totally insufficient, even "counterproductive" under the conditions of a depression; and having stated that in a depression there exists a surplus of "unused production capacities, and unemployed labor," the productive use of which is the "actual and most urgent task of economic policy"; Lautenbach approaches the core of the problem. Echoing Friedrich List, he writes that this task "is simple to solve, in principle," if the state—the sovereign state, we might add—produces "a new national economic demand," which however—and that is the key condition—"represents a national investment for the economy. One should think of tasks like public or publicly supported works which signify an increase in the value of the economy and would have to be done anyway, under normal conditions." In this context, Lautenbach primarily thought about transportation infrastructure.

Now he poses the decisive question: "Since long-term capital is neither available to us on the foreign nor on the domestic market, how are such projects to be financed?" Since for him the quick answer—that because of empty public treas-

Adolf Hitler with Reichsbank chief and Economics Minister Hjalmar Schacht, who bankrolled the Nazis, on behalf of the Bank of England and its Wall Street partners. Schacht was Lautenbach's bitter enemy.

uries, "reasonable public works are neglected in times of deep depression"—has no merit, he states simply: "Liquidity is chiefly a technical organizational issue. Banks are liquid when they are sufficiently supported by the Reichsbank." Consequently, Lautenbach proposes that the Reichsbank give the banks a "rediscount guarantee" for the bonds, for financing "economically reasonable and necessary projects."

The same argument had been used, almost 100 years earlier, by the co-founder of the "American System" Friedrich List—a great fighter for truth, who was forced out of Germany during the dark period of the "Holy Alliance," mentioned by Helga yesterday —in his main work, *The National System of Political Economy:* "The system of state credit is one of the most beautiful creations of recent statecraft and a blessing for the nations, as long as it serves as a means to distribute the costs of those accomplishments and efforts of the present generation, which have a positive impact on the entire nationality for all future times, and guarantee its existence, growth, greatness, power, and an increase of its productive powers over many generations. It only becomes a curse, if it serves as a means for unnecessary national consumption, and in that way does not only not favor the progress of future generations, but steals from it in advance, the very means to realize great national projects." List goes on: "No effort of the present generation brings such a decisive and favorable special advantage to future generations, as the improvement of transportation, since these investments increase the productive powers of the future generation extraordinarily, and in a steadily rising progression."

Like List, Lautenbach believed that "the stimulating effect of the primary credit expansion" for financing infrastructure projects would effect "a stimulating movement in total production" in the economy. The initial boost of infrastructure and investment projects would lead to an "upward turn" of the entire economy. The utilization of unused capacities of production would have the effect of increasing economic productivity. The improvement of tax income would enable the state to shift to a long-term management of the original liquidity to pre-finance the projects. Lautenbach also stresses the fact that credit-financing of infrastructure projects would not incur the risk of inflation. Those projects are "rational and unobjectionable from an economic standpoint, since they represent "in a material sense, real economic capital formation"; this form of credit-financing, after all, would result in creating physical values.

Lautenbach also does not forget the highly significant "productive multiplier effect," which in fact—just think about the extremely successful example of President Kennedy's Apollo Program to put a man on the Moon—always comes into play, if these investments in infrastructure are done on the technologically highest level. That's why LaRouche stresses so much the necessity to realize an efficient technology transfer in his concept of the New World Economic Order, which we want to launch with the "New Bretton Woods" and the Eurasian Land-Bridge. Furthermore, Lautenbach stresses in this context the fact, that the extent and rate of expansion of production grows disproportionally; that is, at much higher rates than the degree and rate of credit expansion.

Lautenbach's concluding summmary—mind you, this was presented in September 1931 to the economic and financial political elite of Germany—sounds today, on the one hand, like a passionate appeal for a then and now urgently necessary "dirigistic-productive" economic policy; but on the other hand, also like an astonishingly sensitive description of the horrible political developments which followed: "By means of such an investment and credit policy, the disproportion of supply and demand on the domestic market will be alleviated and thus total production once more provided with a direction and a goal. If we neglect to undertake such a policy, we will inevitably head in the direction of continuing economic disintegration and a complete disruption of our national economy, into a condition in which, then, in order to avoid domestic political catastrophe, one will be compelled to undertake a strong increase of the short-term public debt for purely consumptive purposes; while today we have the instruments, by means of utilizing this credit for productive tasks, to bring our economy and our public finances into balance once more."

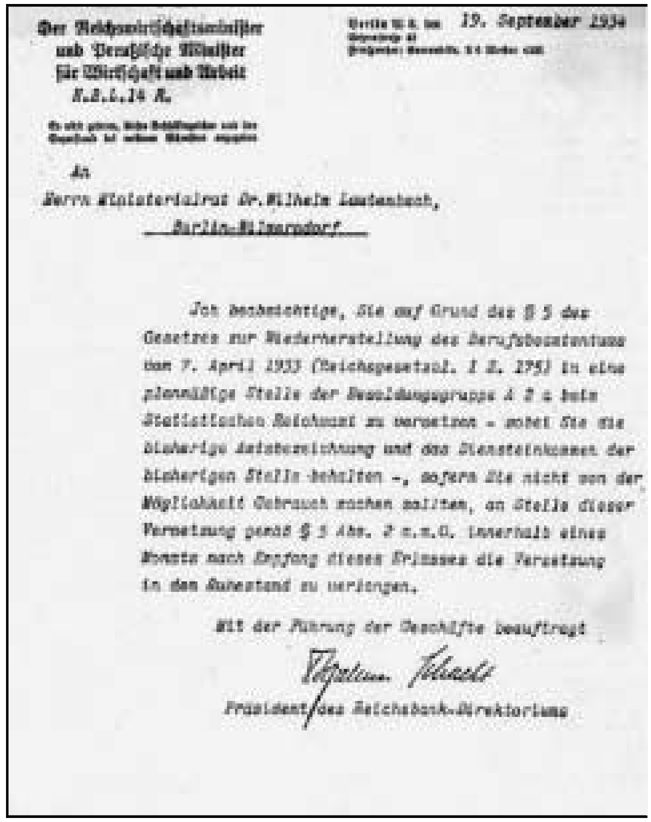
The Political Fight

As is known, Lautenbach's ground-breaking proposal "vanished" in Germany, since the government "did not find the courage to act decisively"—with catastrophic consequences for Germany, Europe, and the world. In hindsight it is clear that with the immediate launching of the Lautenbach Plan, Hitler and the Nazis would not have had a chance. This fact, LaRouche and his international organization have stressed again and again for decades, although the discussion of this topic was made into a political taboo. The protocol of the secret September 1931 seminar of the Friedrich List Society, for instance, was published only 60 years later, in 1991. And only last November, Prof. Herbert Giersch, one of the former "economic wise men" in Germany, and former head of the World Economic Institute in Kiel—which was formerly headed by Professor Harms, the president of the Friedrich List Society, during those crucial years in Weimar Germany—pointed publicly to the fact that in the beginning of the 1930s, a group of "economists of all colors," among them Lautenbach, had developed a competent economic program, which could have stopped Hitler. Even the—insufficient—"Papen Plan" for the "stimulation of the economy" had created such a positive mood in Germany in the Autumn of 1932 that the Nazis lost more than 2 million votes in the November 1932 elections. Goebbels went into a depression, and Hitler was speaking about suicide. The realization of the much, much more competent "Lautenbach Plan" one year earlier, would definitely have prevented the Nazis from even getting close to taking power.

The Nazis themselves—above all Schacht and his Anglo-American friends—immediately recognized the political dynamite of the Lautenbach Plan. When in July 1932 the "left" wing of the Nazi Party went into the election campaign with an economic program to create jobs, which only vaguely echoed Lautenbach's concept, Hitler, alarmed by Schacht, immediately ordered this program to be physically eliminated—although the Nazis, partly because of this demand, had gained enormously and became the strongest party. After all, Schacht didn't want to put Hitler into power to realize the program of productive credit creation, but exactly the contrary—as he, in fact, later did with his program dubbed "cannons instead of butter."

There was in fact a serious attempt to realize the Lautenbach Plan: At the proverbial very last minute, the just-installed von Schleicher government in December of 1932 directed the Reichsbank to extend productive credits for instrastructure projects, but Schacht immediately mobilized his Anglo-American backers against this. Vast amounts of money from abroad flowed into the empty coffers of the Nazi party, and with a virtual coup on January 1933, von Schleicher was ousted and Hitler put in power.

But even with that, Schacht was not satisfied. When, in the Summer of 1934, he had finally reached his goal, and practically became the omnipotent financial-economic dictator of the Nazi Empire—besides his position as president of the Reichsbank, which he eagerly grabbed again after Hitler took power, he also was made "temporary" Economics Minister (so that he could keep his post at the Bank for International Settlements in Basel)—Schacht's very first official act was to fire Lautenbach. And Schacht, who did not remove any other official, did so explicitly by means of that Nazi law, which Hitler had issued to get rid of unwanted state officials. Among them were, naturally, many Jews, which resulted in a big "brain drain," since at that time a very large percentage of German university professors, artists, scientists, and teachers were of Jewish origin.



Der Reichswirtschaftsminister
und Preußische Minister
für Wirtschaft und Arbeit

Berlin W 8, den 19. September 1934

An
Herrn Ministerialrat Dr. Wilhelm Lautenbach,
Berlin-Wilmersdorf

Ich beabsichtige, Sie auf Grund des § 5 des Gesetzes zur Wiederherstellung des Berufsbeamtentums vom 7. April 1933 (Reichsgesetzbl. I S. 175) in eine planmäßige Stelle der Besoldungsgruppe A 2 c beim Statistischen Reichsamt zu versetzen - wobei Sie die bisherige Amtsbezeichnung und das Diensteinkommen der bisherigen Stelle behalten -, sofern Sie nicht von der Möglichkeit Gebrauch machen sollten, an Stelle dieser Versetzung gemäß § 5 Abs. 2 a.a.O. innerhalb eines Monats nach Empfang dieses Erlasses die Versetzung in den Ruhestand zu verlangen.

Mit der Führung der Geschäfte beauftragt
Hjalmar Schacht
Präsident des Reichsbank-Direktoriums

Schacht's first official act, as head of the Nazi Economics Ministry, was to fire Lautenbach. His infamous letter reads: "On the basis of §5 of the law of April 7, 1934 to reestablish the professionalism of state officials, I intend to move you to a position at the Reich Statistical Office—though you will keep the title and income of your present position—unless you don't want to make use of the opportunity to request your retirement, according to §5.2, within one month after having received this letter."

Lautenbach Hails Roosevelt

But not only the negative example of the catastrophic consequences of the sin of omission in Germany attests to the validity of the instrument of "productive credit generation." Even more so, the positive example of the New Deal of U.S. President Franklin D. Roosevelt, who, immediately after his inauguration on March 4, 1933, started to realize an American Lautenbach Plan—based on the very same Listian principles of the "American System." After rigorously reforming the totally bankrupt U.S. banking system in a matter of several days, he dirigistically issued credits for special big infrastructure projects, like the development of the Tennessee Valley, and with this stimulated the physical economy.

Lautenbach saw the realization of his idea in the United States with great interest, as a speech makes clear, which he gave in Berlin in the beginning of 1936: "For more than four years, the United States has been engaged in a policy of handing out credits, whereby two periods have to be clearly distinguished, the period of Hoover, and the period of Roosevelt. They are essentially different in their targets, their means and their success." Hoover, argues Lautenbach, was using purely monetarist means, and "hoped to accomplish everything by means of the stimulating effect of cheap money. But this expectation turned out to be false in every respect."

Totally different was the approach taken by Roosevelt, who had presented a "comprehensive credit program," argues Lautenbach. Though his New Deal was "not exactly unified, consistent and clearly thought through," it was "bold and correct in its approach"; besides that, Roosevelt proved to be very flexible in its execution. Taken as a whole, Roosevelt's policy of productive credit creation had had an "unusually beneficial" effect on the entire U.S. economy. "How important these measures are," says Lautenbach in conclusion, "is also made clear by the fact that these giant projects like the agricultural and industrial development of the Tennessee Valley—projects which because of their unique generosity, have a unique place in history—are only a tiny fraction of the entire project of job creation. The successes of Roosevelt's policy are undoubtedly very big."

Exactly such an "undoubtedly very big" success, we indeed can accomplish today, with the realization of LaRouche's New Bretton Woods, his Super-TVA and the Eurasian Land-Bridge; and in this way, create the conditions for the much-needed "Peace through Development."

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Friedrich List: Outlines of American Political Economy

With a Commentary by Michael Liebig and an Epilogue by Lyndon H. LaRouche, Jr.

"I confine my exertions solely to the refutation of the theory of Adam Smith and Co. the fundamental errors of which have not yet been understood so clearly as they ought to be. It is this theory, sir, which furnishes to the opponents of the American System the intellectual means of their opposition."

—Friedrich List to Charles J. Ingersoll, July 10, 1827

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