Economic Debate at Berlin EIR Seminar

On June 28-29, 2005, representatives of 15 nations gathered in Berlin, Germany to discuss, with Lyndon LaRouche, a strategy for revolutionary change in the strategic, economic, financial, and moral-cultural conditions on our planet. Here EIR *publishes two written contributions to the seminar, from Italy and South Korea. See* EIR *issues of July 8 and July 29 for previous coverage of the Berlin Seminar.*

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Production Must Be Primary, Not Finance

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For more than 30 years, the world has been living through a situation of serious imbalances, due to the inability and lack of will of national governments and international authorities to limit the influence of financial interests, as opposed to productive interests.

With Nixon's suspension of the convertibility of the dollar, in the Summer of 1971, the world entered a period of great uncertainty, which has still not been resolved.

Initially, the problem was considered to be currency instability; and in fact, during the 1970s, the continuous variability of exchange rates and the inflation of national currencies allowed financial speculation to produce large profits, while nominal interest rates did not seem particularly high, and real interest rates were even negative.

Therefore, in those conditions of the 1970s, many countries took advantage of the situation to increase exports through currency devaluation, while still creating growth in domestic income for their own workers (this was possible because only a fraction of the cost of production—40-60% generally—was made up of labor, meaning that about half the amount of salary increases turned out to be real, rather than nominal or inflationary); on the other hand, the possibility for nations to take on small amounts of debt by issuing low-interest bonds, allowed for significant public investment, including in the field of infrastructure.

This situation though, despite the clear presence of serious financial and currency imbalances, allowed productive activity to gain on speculative activity. It consisted of low interest rates, the use of exchange-rate leverage for development, monetary flexibility, and national sovereignty in economic policy.

Developing countries began to foresee scenarios for economic and social emancipation; the working classes in industrialized countries got a taste of the real—not abstract—meaning of democracy; profit rates were on the ropes, but assets were increasing in value.

Nevertheless, it was clear that the system aimed to achieve social equity at the cost of growing financial, monetary, and currency imbalances.

The international community agreed to these changes, but the changes led to the cancellation of hopes for social equity, without deeply and stably reaching the goals of financial balance.

A Deteriorating Situation

With agreements for exchange-rate stability, each country was forced to raise interest rates if its economy weakened (thus aggravating the situation), or to reduce them if the economy strengthened (thus accelerating the phenomenon that was supposed to be contained).

With the high interest rates that came about, certain countries—such as Italy—saw the explosion of their public debt; others (the so-called developing countries) became indebted to the large international commercial banks, thus laying the basis for the impossibility of recovering the credits, including due to the fact that the repayment of the loan itself became economically and socially impossible when the effects of the compound interest—and the difficulties in international trade—were such that they caused the debt to double about every four years. Today, there is a lot of talk of cancelling the debt, as if the debt hadn't already been cancelled, and hadn't already been written off by the banks as unrecoverable. This should have stimulated the search for and implementation of alternative measures that are effective for the economies of countries which had population growth rates—and at times interest rates as well—which were higher than the growth of their Gross National Product.

Nation-states were completely deprived of sovereignty over their currencies, with the goal of depriving the political class (which was considered corrupt by definition) of its power over public investment. Even the costs of unemployment compensation and expenses for health care or transportation were thus financed at increasing interest rates (because the—privatized—monetary authorities blindly monitored monetary quantities without adjusting them based on social needs). Thus, the rate of inflation diverged significantly from the actual increase in prices; the former turned into deflation, while prices continued to increase, especially for most goods and services, including the currency itself, with the lone exception of goods and services characterized by significant technological innovation.

A situation was created in which industrial strategies and economic policies were seen as remnants of the past, as there were no longer currency and monetary instruments to be used, in a climate of growing confusion regarding liberalization and privatization, market omnipotence, and criminalization of the state.

After the golden age of acceptable economic and social balances (between the end of World War II and Nixon's declaration in 1971), which also provided hope and perspective for the future—an important condition for both society in general and the economy in particular—and after the imbalances of the 1970s, a new phase began: This was a long phase of sacrifice and social injustice, accompanied, however, by results that were sporadic and not always satisfactory in terms of monetary and financial balances.

The prevalence of speculative financial interests over the growth of productive activities accompanied the inversion of entrepreneurial risk; in fact, until the 1980s, entrepreneurs, managers, and owners took on the so-called risk (in a Weberian sense), and after having paid all the costs, took the earnings (profit)—if there were any. Afterwards, the very different goal of profit as a percentage of investment was established, and imposed as primary, compared to the cycle of production, such that all the risk was dumped on labor, small dependent companies, families, and civil society. In this situation, the interests of owners and institutional investors (especially pension funds) were dominant, as they imposed—"cost what it may"—rates of profit in the 1990s, that were not lower than what the investors had promised their underwriters when real interest rates on bonds were above 7%, in the 1980s.

Problems With the Euro and the Dollar

In a negation of the possibility of reaching social balance and justice at the cost of monetary and currency imbalances, strategies were chosen for reaching monetary balance at the cost of growing injustices and social imbalances.

This is the context in which the project of the euro was conceived, matured, and implemented.

So the euro was born with the genetic flaw, for a currency: that of not being considered principally an instrument—useful, necessary, and helpful—but rather an aim in itself; it thus pretends to be a god to whom everyone must sacrifice themselves.

This indicates the obvious limit of the euro: that of not succeeding in improving the European amalgam. To the contrary, in retracing the history of the idea of Europe held by our fathers and grandfathers, we can definitely say that Europe has never been as far off as it is today.

Now, that wrong political economic project in which monetary and financial balance is reached at the cost of social imbalances and inequities, clearly appears unfeasible, and therefore, its failure risks bringing down the euro itself.

On the dollar front, however, the situation is certainly no better.

The Americans, by using their condition as a superpower, have continued to finance international development by covering their trade imbalances and other debts with dollars and dollar-denominated bonds.

However, the reality is that if we were to do the count (if China, India, and Russia wanted to transform their dollars or bonds into euros, for example), we would realize that the actual value of the dollar would be a small fraction of its current value (expressed as temporary purchasing power).

A New Bretton Woods

The two pieces of good news—because there is also good news!—consist in the growing recognition of the tragic limits of the current economic model, and the presence of human intellectual resources that can be used to change the situation.

A New Bretton Woods, an international agreement capable of relaunching the economy by returning production, large infrastructure networks, and scientific research to their rightful roles, and currency to its necessary role as an instrument, is possible.

The prevalence of finance over production, and exports over internal growth, have fostered imbalances and fears, because countries such as China and India, instead of finding themselves in a condition based on necessary potential development, find that they are exporting their own low salaries, precarious working conditions, lack of protection of human health, and increasing degradation of the environment. The immense task the present generations are faced with, is thus that of finding the path that allows for investing in one's own country in order to increase the value of the resources which are present, thus being equipped to export only that which is required as compensation for indispensable imports. This will stimulate the commitment and creativity of each one of us: how to produce more and better in our own environment, without this meaning harming or endangering the interests of our neighbors.

I am thinking of a great axis that links China and Russia with the countries that face Italy on the Adriatic and Black Seas; and from there, on towards Africa. Set up this great bridge, and link it to the Eurasian Land-Bridge which LaRouche has been promoting for some time now, as an alternative to the idiocies of the world of finance; I believe this is the principal task we now face.

The monetary and currency agreements of the 21st-Century Bretton Woods accords will have to facilitate and make possible such a new vision of the world; a world in which each and every person, together, will be able to solve problems without having to attack, or serve, those around them.

A world which begins with each person's commitment to contributing to social well-being, placing one's own resources at the disposal of society, rather than leaving them unused.