

## Gorbachov's dangerous ignorance of economics

by John Hoefle

According to reports in the *Financial Times* of London, two days of "brutal debate" were recently concluded in the U.S.S.R., involving Mikhail Gorbachov, economists, industrial managers, elected deputies of the Supreme Soviet, and others, on the policies needed to deal with the deepening Russian economic crisis. Gorbachov rejected the idea of free-market-style price gouging, warning that the population would not tolerate unrestrained price increases amid the chronic shortages of food and goods.

"I know only one thing," Gorbachov said. "That after two weeks of such a 'market,' all the people will be on the streets, and will smash any government, even one which declares its devotion to the people." He announced that plans to reform prices had been postponed, "out of fear of sharp social reaction to some radical decisions."

Gorbachov complained that the U.S.S.R. lacks a coherent economic program, and appealed to the Soviet scientific community to help in formulating one. He insisted that what was needed was a "new strategy for *perestroika*."

Gorbachov's statements follow an article in the Soviet magazine *Ekonomicheskaya Gazeta*, charging that *perestroika* up to now has been too "timid," and that "radical" new price-reform and other "market" measures must be implemented. The article insists that prices be allowed to rise during the course of 1990, that various state industries and farm monopolies be broken up, and that a stock market be created.

Responding to this confusion and turmoil in the Russian empire, congressional candidate and political prisoner Lyndon H. LaRouche, Jr. cited the lack of understanding of the fundamentals of economic science among the Russian elite. "We see again," LaRouche said, "in the hysteria and desperation of Soviet President Mikhail Gorbachov's recent address

to the economists in Moscow, the nature of Gorbachov's failure to grasp the ABCs of physical economy, and his terrible ignorance of economics generally. The problem here is not only that Gorbachov is ignorant of economics, but that a number of Soviet economists, including perhaps himself, swallow the kind of monetarist dogmas that are otherwise known as Thatcherism, Keynesianism, Friedmanism, Hayekism, and von Neumannism, in the West. This is reflected, aptly, by the absolutely disgusting proposals for radical pro-market reforms put forward in the *Moscow Economic Gazette*. The issue here is a simple one, which nonetheless bears repeating, that you cannot manipulate an economy to grow through monetarist manipulations: It is impossible. Sometimes, economies under the influence of monetarist manipulations grow, but they grow for reasons which are contrary to and in spite of the monetarist manipulations.

"The point is," LaRouche continued, "that monetary processes are, relative to economy, intrinsically linear. The inevitable result of the manipulation of an economy by any form of monetarism, even a zero monetary profit monetarism—that is, a case in which all real profit taken in a monetary form is put back into the economy as productive investment—is entropic, leading toward cyclical collapses and recoveries at best. This is because of the nature of the monetary process, which defends itself against the intrusions of impulses of physical economy.

"The problem in the Soviet economy," LaRouche stated, "is, first of all, in the broadest terms, an allocation problem, the failure to understand the ratios of employment and capital-intensive employment in infrastructure, agriculture, and industry required, at existing and projectible levels of physical productivity, to maintain a balanced and growing economy, an economy which is balanced and growing in physical

economic terms referent to physical market baskets of producers' and consumers' goods measured in per capita, per family unit, and per hectare terms."

LaRouche compared the collapse of the Soviet economy to similar activity in the West, saying, "There has been no economic growth in the Western economies generally, except for Japan, in the the West since about 1965-66, and most emphatically since 1970-72. It never happened! What has grown has simply been the growth of monetary aggregates, and to the extent that this shift in monetary aggregates seems to have made some people more wealthy, this has occurred only at the expense of others who are not only correspondingly less wealthy, but at the expense of an overall contraction of the rest of the economy as a whole, compensating for any real component to growth in monetary aggregate income in any restricted sub-sector of the economy."

### **Monetarism or mercantilism**

"So," he continued, "we come to the point where the choice is, essentially, either between monetarism, which means the death of the world economy and the death of nations, crises of an apocalyptic character, or the scrapping of monetarism, in return for a resumption of mercantilist or Hamiltonian models of economy. The issue then, is not merely between the monetarists; once we put the monetarists aside, the issue becomes one between different conceptions of physical economy, as distinct from monetarist models of physical economy.

"This is not to say that monetary processes don't function at all—monetary processes are a regulator of flows of physical goods, whose purpose is to use this means of price/monetary aggregate regulation, as a way of accomplishing physical economic objectives. That is, if one puts into the monetary process, including the fiscal process—the government tax and spending processes, and so forth—if one puts in the correct axiomatic assumptions, and builds a monetary process based on those correct axiomatic assumptions, the result of monetary flows will tend to be in that case, a promotion, or tendency to promote, real—that is, physical—economic growth, per capita, per hectare, etc. This is not because of monetary processes, but this is because the correct physical-economic axioms have been embedded as the lawful criteria regulating monetary processes. Thus, without a monetary process regulated to conform to an appropriate set of criteria of physical-economic change and performance, monetary processes don't work.

"We always put the monetary process on the subordinate side, almost the 'also ran,' and concentrate on the physical-economic process. Once we have settled the requirements for the physical-economic process, we return to the monetary process, including fiscal features, and design the monetary process by aid of central banking or national banking criteria, by aid of general monetary criteria, by aid of tax policy criteria, by aid of governmental spending criteria, and so

forth, to conform to the physical-economic objectives adopted. Thus, the conscious adopting of a physical-economic model is a crucial factor."

### **Creativity of the individual**

The Soviets, he said, "don't understand the essential principle of Western Christian civilization, a *Filioque*-keyed civilization, upon which foundation the success of capitalism, insofar as it has been successful, is entirely based. The crucial factor in physical economy, once all the other structural features, axiomatic features, of this geometry are understood, is the creative mental powers of the individual and the development and application of those creative mental powers. And the entrepreneur fanatics are correct in placing the value upon the individual, upon individual freedom in economy; however, they don't understand what the word freedom means. It means precisely *not* the populist irrationalism, the freedom to be irrational; it means the freedom to exercise reason, to innovate, to create new technologies, to assimilate technologies and to implement them in a better manner than somebody else has implemented them—that sort of thing.

"This is the engine of growth; the function of physical economy is to create the structure and to impose upon monetary processes that structure, to such effect that the factor of individual intelligence, creative mental powers, that which distinguishes man from the beast—and from the ecologists too—that that quality is the quality which is served, and to unleash and motivate that quality to produce the highest possible rate of capital-intensive, energy-intensive scientific and technological progress, and fostering the productivity of labor as expressed in per capita and per hectare terms, in terms of the market baskets of producers' and consumers' goods corresponding to that level of technology. It may be a little bit complicated for some of the dumber people to read and understand; but if you're not capable of understanding—if you're not interested in understanding, if you cannot motivate yourself to understand that and reject all simplistic alternatives—then you're not qualified to be an economist. If you're not qualified to be an economist in that sense, you should shut your mouth when it comes to trying to pass judgments on economic policy.

"The essential point, in summing up, relative to the Soviet crisis: It is impossible that Gorbachov and his associates could ever devise a reform which would lead the Soviet Empire's economies to anything but hell at this point. Similarly, on the Western side, to the degree that the belief in monetarism—or let's call it Thatcherism, for example, or Von Hayekism—prevails in Western policy-shaping circles, or these policy-shaping consensus circles—then the West is doomed for a breakdown crisis without hope. And this, combined with ecologism, as it is presently understood, means the extinction of everything resembling civilization, and possibly, as the HIV virus warns us, possibly the extinction of the human species."