

austerity fell on the Slovaks. In short, under the Klaus formula, the IMF was served by keeping the Czech part fairly stable, through the triage of Slovakia. In the Czech part, unemployment has been kept below 5%, whereas in Slovakia, it is at 12% and climbing. Ninety-five percent of all foreign investment sent into the C.S.F.R. since Jan. 1, 1990 has gone to the Czech area. The triage of Slovakia has created the economic basis for inter-ethnic conflict within Slovakia, against its 600,000 Hungarians and other minorities.

Bulgaria

Finally, let me mention Bulgaria, the country which has been praised by the IMF as representing the model of "success." The criteria defining "success" are that Bulgaria has moved in 1992 into a hard currency balance of trade surplus, and probably a surplus in the non-trade portion of the balance of payments. These criteria are for the IMF the most important, as they define a mathematical "capability" to repay debt. By July 1, 1992, some \$1 billion in foreign exchange reserves, plus \$350 million in gold reserves, had been accumulated—these are the figures provided by the Bulgarian National Bank report on the Bulgarian economy after the first half of 1992. In September, Bulgaria announced that it was resuming debt repayments, suspended in March 1990.

As in the case of the former Soviet Union, the debt of the communist era was not frozen, but kept growing during the period of payment suspension, rising from \$10.2 billion in 1989 to \$12.2 billion this year. . . . On a per capita basis, if the debt of the former Soviet Union were as high as Bulgaria, it would total \$360 billion.

In the first half of 1992, industrial production fell 23% and the sale of industrial goods fell by 14.4% compared to the 1st half of 1991. . . .

By September 1992, unemployment had risen to 530,000 or a 13% rate, compared to 10.1% at the end of 1991, and only 0.7% in 1990, before shock therapy began. . . .

The country is close to a social explosion, and the prospect of a winter of hunger has already sparked an attempt at a mass exodus of the ethnic Turkish minority into Turkey, an exodus that ended abruptly after Turkey demonstrably closed its border to its ethnic kinsmen. The closure of the refuge safety valve for this large minority of 900,000, or 10% of the population, has created the basis for an inter-ethnic and perhaps, later in this decade, international conflict, directly attributable to IMF shock therapy.

In conclusion, with the IMF as with communism, success is based on the ability to rule through an ideology, backed by the barrel of a gun, or analogous power instruments, such as credit and trade embargoes. However, if the absurdity of a Moscow "center" ruling over a large area of the Earth could be terminated, then there were no objective reason why the financial elite of two countries, namely Great Britain and the U.S.A., should employ the IMF to dictate terms that spell ruin to 160 sovereign nations.

The LaRouche plan for economic revival

by Dr. Jonathan Tennenbaum

Dr. Jonathan Tennenbaum, president of the Fusion Energy Forum in Germany, has drafted development plans for Eurasia, based on LaRouche's "Productive Triangle" concept. In Moscow, he presented the method behind the programs.

It is perhaps superfluous to observe, that the kinds of radical economic reforms which the International Monetary Fund is trying to impose, are leading to disaster. At the same time, other schemes which are much discussed these days, including the so-called Chinese model and various forms of "restorationism" or "return to the old ways," are not going to work, either.

The alternative I shall present is based on the work of Lyndon LaRouche. It is not a magic formula or an administrative mechanism falling down from the sky, but a method of thinking about economic and scientific problems. Actually, it is not completely new, but has a long tradition going back to Leibniz, Hamilton, Carey, List, and other figures who were responsible for building up most of the successful industrial economies in the world. I would add the circles of Count Sergei Witte and Dmitri Mendeleev, who were relatively successful in launching the modern industrial development of Russia beginning in the late nineteenth century. This current of economic practice continued to be expressed, although in weakened form, in certain of the policies of French President Charles de Gaulle and U.S. President John F. Kennedy. LaRouche has revived the whole conception on a higher level, while adding new features which are indispensable for dealing with the present crisis.

Briefly summarized, LaRouche's approach centers on the use of credit generation by a newly organized National Banking System, to promote a high rate of technological improvements throughout the productive sector of the economy. In the present situation in Russia, Europe, and Eurasia generally, the only effective way to accomplish this is by a rapid, large-scale development of physical infrastructure. . . .

LaRouche put forward his proposals not as an answer to the problems of any particular nation, but in response to the crisis of the world economy as a whole. He pointed out, back

in 1988, that besides Japan, there is only one area of the world which could be the source or locomotive of a general economic recovery; that is western Europe, and specifically the region located approximately in the triangular region between Paris, Berlin, and Vienna. This region—which he called the “Productive Triangle”—contains the greatest concentration of skilled labor and modern capital goods industries in the world. Extending outward from that region are natural corridors of industry and transport, reaching throughout Europe, into the former Soviet Union, all the way to the Pacific. By building up in the “Triangle” and in these corridors high-speed rail lines, nuclear energy, and other advanced technologies, a gigantic increase in productivity would be generated which would act as a “locomotive” for the whole world economy. . . .

The fraud of the ‘market economy’

The socialist and so-called free market system—which actually doesn’t exist, but is really an ideological cover for something else—together constitute a two-headed monster, with the faces of Adam Smith and Karl Marx, such that when one head dies, the other one dies, too. They both die of the same congenital illness.

Many people here do not appreciate this point. People talk here about “transition to a market economy.” But there really is no such thing as a market economy, at least not the way people seem to talk about it; it never existed, and could not possibly exist. For example, some experts from Harvard University come to you here and say, for example, “You must stop subsidizing industry.” Well, as a matter of fact, the U.S. government still subsidizes U.S. industry, especially in areas of high technology. So do the German government and the French government and the Japanese government, for tens of billions of dollars a year. These economies could not possibly function without massive government intervention into the so-called free market. . . .

The ultimate source of wealth is located uniquely in the creative potential of individual human minds to make scientific discoveries, and to assimilate and apply valid discoveries in the form of new technologies. The result is to increase the productive powers of labor, and thereby the potential amount of physical wealth which can be generated per unit area of land and per capita of the population, beyond any assignable limit.

The fundamental question of economics is, how to organize society in such a way as to constantly increase the density of successful scientific and technological advance, as a continuous process. That is the problem which Leibniz, Hamilton, Carey, List, and LaRouche have answered, in an increasingly effective manner for practice.

Thus, the discussion about creating a so-called market economy fails to address the essential point. Yes, the rigid administrative methods of the Soviet system didn’t work. Yes, there is the problem of the entrenched bureaucracy, of

the *nomenklatura*. Yes, it is useful and necessary to promote small and medium-sized private enterprises in agriculture and industry, to establish markets for free access to various sorts of goods, to reduce wastage and inefficiency rampant in the economy. But, attempts to solve these problems by liberalization and administrative methods alone are not going to work. You need the crucial additional element of physical change: the rapid injection of improved technology into your economy. Without that, you won’t be able to effectively change the structures you complain about. You won’t be able to change the mentality of people.

Noninflationary credit creation

There were three essential problems with the Soviet economy, in physical terms, which are all very closely related. First was the fact that scientific and technological progress was “bottled up” within the military sector, and was not able to propagate effectively into the economy as a whole. Second, the extreme extensivity of the economy. Third, there was a general neglect of intensive use of basic economic infrastructure.

LaRouche’s approach is to attack all these problems simultaneously, by using rapid improvements in infrastructure as the transmission belt to propagate technology into the entire economy. There is a certain analogy to what Count Witte did with the railroad developments in Russia, and even to the famous electrification program, which the Bolsheviks really took over from Witte.

It is crucial to realize that every technological improvement in physical infrastructure increases the effective productivity of every factory and every farm in the economy, and reduces the per capita cost of maintaining the population’s living standard.

This has a very important implication: When a National Bank of Russia, for example, issues credit for physical improvements in infrastructure, such expansion of credit 1) is counterbalanced by the production and installation of equipment and other physical goods employed in infrastructure construction, and 2) increases the overall physical efficiency of the economy as the result of more efficient infrastructure. For this reason, issuance of such credit is anti-inflationary in effect. . . .

Our infrastructure program

The extremely extensive mode of development of the former Soviet Union, with its interconnected production areas spread over immense distances and its very low average density of population compared with western and central Europe, translates into very high transport costs per unit of goods and per capita. In order for your economies to operate as efficiently as the west German or Japanese economies, for example, your transport and energy infrastructure would need a much higher technological level than Germany’s.

Under the present conditions, the greatest intensity of

investment, in terms of the large projects, must be concentrated in a system of corridors of relatively highest density of population and economic activity. . . .

It is crucial to emphasize that our proposal involves nearly the exact opposite use of infrastructure as, for example, the BAM [Baikal-Amur Mainline] or the famous railroad to Vorkuta; these long lines were built in areas of extremely low population density, and their construction was motivated by the location of raw materials and by strategic considerations. Our proposal is not focused on raw materials—which, as I emphasized, are not the real source of wealth—but with increasing the productive powers of labor through technology. We could call this the intensive use of infrastructure, as opposed to extensive uses. . . .

Let me briefly identify some of the types of technologies which are crucial for the modernization of basic infrastructure, particularly within the high-density corridors discussed above.

First, the introduction of improved forms of nuclear energy is absolutely essential. On the basis of recent technological developments, particularly in high-temperature materials, it is now possible to build new types of nuclear reactors which have the feature of intrinsic safety—that is, a dangerous accident is physically impossible. . . . High-temperature reactors of this type will provide heat for industrial processes as well as electricity at a high efficiency, replacing a large part of the enormously wasteful consumption of coal and oil in your economies, and reducing the dependence on transport of hundreds of tons of fuels over large distances. . . .

Given sufficient energy, many other bottlenecks can be overcome. For example, we can get a lot of the steel we need for infrastructure by feeding the millions of tons of junk which are lying around into high-temperature plasma furnaces of various kinds. More generally, the higher energy-density which we can reach in plasmas, permits us to process waste and low-quality raw materials economically. We thereby liberate ourselves from the silly, nineteenth-century obsession with strategic raw materials, which still dominates much economic thinking in the East as well as the West. On the horizon, we have fusion, which the world needs at the beginning of the next century.

The second crucial area is modernization of the freight transport system, using high-speed express trains (up to 150 kilometers per hour) with advanced control systems and highly automated loading facilities for containers. These facilities make it possible to rapidly transfer containers between the different modes of ground transport: railroad, truck, and ship, including inland rivers and waterways. A very big role in the collapse of the Soviet economy was the lack of sufficient investment in the railroad system. The role of infrastructure was not correctly understood.

Technology exists today to build new rail lines and modernize old ones in a very rapid and efficient manner. There are now machines which can lay down and weld together

complete railroad tracks at the rate of one kilometer per day. . . .

We are on the threshold of a historic revolution in ground transport—the use of magnetic levitation. . . .

In emphasizing the importance of advanced technologies, I would suggest a different approach to the much-discussed conversion of military-related industries than appears to have been taken so far. The point is this: The Soviet Union was a scientific-technological superpower, which matched and even exceeded the West in a number of very sophisticated areas, including space travel, plasma physics, and fusion research. How can such capabilities be used to rebuild the economies of the Community of Independent States?

The trouble is, that many people are looking at the high-technology, military-related industrial sector only in terms of the competitive quality of products which they would be able to produce, for example, on the world market. But the most valuable thing about this sector is not simply the relatively high quality of production, but more important, the capability to solve problems by developing and producing new technologies based on the most advanced areas of scientific research. The center of that capability is the development of specialized machine tools. The sector was organized to perform that function in a rather effective way, unfortunately mainly within the restricted domain of military applications. If you simply propose, for example, that each factory should try to develop some product it could sell on the so-called free market, in an anarchistic way, then this sector—which was developed as a highly interconnected organism—will disintegrate, and you will lose most of its capabilities.

A workable alternative is to put this sector to work in solving the technological problems of infrastructure. To put it in another way: The state, by financing a massive modernization of infrastructure, creates a large and stable demand for new, advanced technologies. . . .

Now some people will object, that with this approach we are permitting the old centralized economic system to continue. That is not true; an economy based on the central role of a National Bank system, which I shall now describe, functions completely differently from a Marxist planned economy. But it is true that the task of developing basic physical infrastructure, as well as social infrastructure of health and education systems, for example, must be the responsibility of the state. This function cannot be fulfilled by private enterprise alone, and certainly not according to the principles of the “free market.”

The method of the Hamiltonian national bank

. . . I shall sketch an example of how a Hamiltonian national bank might operate in Russia.

The new National Bank should be set up in connection with a currency reform, which reestablishes control over the financial system and provides the possibility to destroy a vast

amount of speculation and illegal activities of various kinds, and to stop the present hyperinflation. Essentially, old ruble notes are exchanged for new currency notes (let us say, "Novy Ruble") according to an orderly procedure. In this process, holders of large amounts of old rubles in cash or on account will be required to account for where they came from, before they are allowed to exchange them. As a result, a large amount of rubles acquired illegally, or without paying taxes, will be discovered or else their owner will burn them to avoid being prosecuted! . . .

In its simplest form, the new National Bank of Russia would generate new credit through the emission of new currency notes in the form of low-interest loans to the state, and to state and private enterprises either directly or in cooperation with other banks. The interest rates will be between 2% and 6%. Most importantly, such loans will be given only for certain precisely defined categories of productive investments, including particularly for improvements in infrastructure and for technological modernization of industry, agriculture, and the construction sector. But the National Bank will not provide credit for investments into the service sector or for purely financial transactions such as trade in commodities or land. . . .

Let us say that we have a machine-building enterprise which produces machinery for railroad construction. We receive a credit from the National Bank of Russia to construct a new modern production line. The local branch of the National Bank will pay money out of the special account only for deliveries of specified materials, machinery, and tools, and so forth. In other words, we never actually see the money ourselves. . . .

Naturally, credit will be available outside the National Bank for the service sector and other uses outside the strictly productive sector. However, these credits will have a higher rate of interest, and banks will only be able to lend to such categories of investment from their own funds. Thus, expansion of lending for nonproductive activities can only occur indirectly. . . .

For some people, this method of credit generation to finance infrastructure and modernization of industry and agriculture sounds like magic. They are accustomed to experiencing shortages everywhere, and cannot imagine anything being created which was not taken away from another place. But there is no magic. If we look at Russia, for example, we see on the one side tremendous reserves of labor, of poorly utilized productive capacity, and especially an extraordinary technological potential; on the other side, we see a nearly endless list of tasks, of necessary things which are not being done, including especially the modernization of infrastructure. The problem is, that the capabilities are not properly matched to the tasks, like an automobile in which the motor is disconnected from the wheels. What the National Bank essentially does, is to put them back together.

How to overcome errors in economics

by Prof. Dr. Taras V. Muranivsky

Professor Taras Muranivsky teaches at the Russian State Humanitarian University and is rector of the new Ukrainian University in Moscow. He actively organized the Oct. 30-31 conference on "Alternative Approaches to Economic Reform," and served as its co-chair. Professor Muranivsky is scientific editor of the forthcoming Russian edition of Lyndon LaRouche's 1984 book, So, You Wish to Learn All About Economics? His paper on that book, prepared for the conference but not delivered for reasons of time, is part of the conference proceedings and is included here in full. The speech has been translated from the Russian, and subheads have been added.

In Russia, as in the majority of the new independent states that arose after the disintegration of the former U.S.S.R., an attempt is being made to achieve the economic level observed in the developed countries of the West today, by means of private property, the market, and certain financial and pricing operations. But the problem is that our notions about the so-called market economy are oversimplified to no small degree, are somewhat "larded" with the ideologies of the recent past, and are essentially mythical. It seems to bother us little, that among countries that have private property and a market, there are economically backward and politically dependent ones alongside the developed.

Evidently those people are correct, who compare contemporary Russia, for example, with Brazil. Just as they are there, we are faced with a comprador bourgeoisie and a wild market. No one has any interest in the development of infrastructure, growth of production, or raising the population's standard of living. Nobody has any use for science, and nobody is worrying about the acceleration of scientific and technological progress. It is to be expected, that in Russia, just as in Brazil and in other Latin American countries, the recommendations of the International Monetary Fund will fail utterly. Perhaps the only thing that is holding us back is the irony of ambiguity, mixed with the cynicism of totalitarian times.

We should seek a way out of this situation, starting with the decisive rejection of primitive notions about economic development. This requires studying various economic theories and conceptions, as well as the accumulated human prac-