

LAROCHE SPEAKS TO GERMAN ECONOMISTS

The Key to Economics Is Human Scientific Discovery

by Lyndon LaRouche

Lyndon LaRouche addressed more than 100 former students of Prof. Wilhelm Hankel, at Frankfurt University on May 29. Professor Hankel, who was the former chief consultant of Germany's Kreditanstalt für Wiederaufbau (Reconstruction Finance Agency), introduced LaRouche as "An American Legend." LaRouche engaged in a two-hour presentation and seminar with Hankel's students, who are now retired from their professional careers, and many of whom are quite familiar with LaRouche's economics and political writings, through Hankel's lectures.

Here is an edited transcript of LaRouche's opening remarks. Subheads have been added.

Thank you for receiving me here.

First of all, I'd like to begin with an identification of the development which is occurring inside the United States now, which is of relevance not only to the United States, but to the world as a whole. What I'm doing, I'm pushing a piece of legislation into the U.S. Congress, through our friends and associates in the Congress, which will be a general reform of the type needed to rescue the United States itself, from what is presently a threatened and general collapse of the economy. The significance of this change in policy in the United States: It would be a lever for similar actions in cooperation with Europe and other parts of the world. And particularly, in the situation here in Germany.

The proposal is simply this: We have a section of the U.S. automobile industry, which is now being shut down, or in the process; it is scheduled to be shut down during the coming 24

months. The U.S. auto industry, very much like comparable things in German industry, is the biggest concentration of machine-tool design capability in the economy as a whole: The auto industry and the aerospace industries are the largest concentration of machine-tool driver capacity. Therefore, if we allow this industry, or two-thirds of it to be shut down, that would mean that the United States would permanently lose the essential machine-tool design capability on which the organization of a recovery of the U.S. economy would depend.

Now what this involves is the following. My legislation, which is greeted happily by a number of Congressmen, who have promised to support the legislation, if the right number-one sponsor in the Congress steps forward, is the following: That the U.S. government, following precedent set under Franklin Roosevelt, would legislate a takeover, temporarily, of the section of the auto industry which is doomed to be closed otherwise. What we would do then, is use this machine-tool driver capacity, from the auto industry, for other things besides producing auto.

For example: We need a railroad system, which we've destroyed and must replace in the United States. We have our river system, the locks and dams, and water systems generally, which are now aged and collapsing, disintegrating. We have a power crisis beyond belief. The power plants that have not been replenished over the past 40 years, are now wearing out, and are about to disappear. So, we have these and other things that are desperately needed in the name of infrastructure, basic economic infrastructure. And



Courtesy of The Mount Washington Hotel & Resort, Bretton Woods, N.H.

LaRouche noted that “in relation to a future Europe, we would be going back to something like the Bretton Woods system of fixed-exchange rates, which was what was necessary for the great recovery in the post-war period.” Shown here are delegates from 44 nations, at the 1944 Bretton Woods International Monetary Conference.

by using these means to drive a recovery program, which is a supplementary production program, we would then be in a position to expand the economy as a whole.

This is what was done in the 1930s, with Harry Hopkins and with a gentleman who worked for him called Lucius Clay, not unknown in Germany.¹ So it’s essentially the Roosevelt type of program.

Surge Potential

Now, this is what’s called the “surge potential.” You may be familiar with that term: That, in the economy which is collapsing, and which is the case of all of the economies of Western and Central Europe, as well as the United States, you have to find a way, not merely to recover employment—as you know from Europe studies, that doesn’t work. You’ve got to find productive employment which causes actual growth, as was done, with my associate here, with the Kreditanstalt für Wiederaufbau here in Germany. It was the regenerative capability of developing more and more production which is essential.

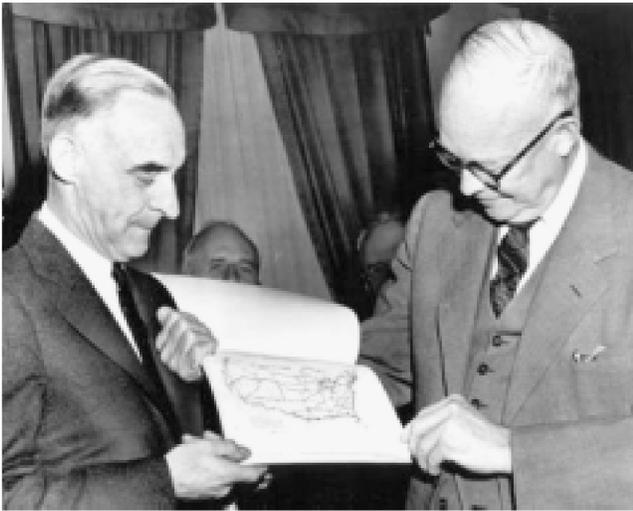
Now, the way it would work, and what we’re working on in the legislation, is: I’ve also proposed that we add six new divisions to the military Corps of Engineers. This would be like a driver for many of the projects which need construction, which are Corps of Engineers types of things. The United States has a tradition of the peacetime use of military Corps of Engineers for whole categories of large-scale construction. And in my view, it’s a better military policy than the alterna-

tive. Especially these days.

Now this would be supplemented, because a lot of work is required to implement the utilization of the things produced by this reformed section of the auto industry. Among other things, we have an AmeriCorps organization which was actually set into motion under President Clinton. He signed that bill into law. Now, this was aimed at utilizing youth who otherwise had a very poor future, to bring them into programs of education and employment which would enable them to become part of a future. What we would do is expand the AmeriCorps. And together with the Corps of Engineers, we would have a government-sponsored section to implement the measures of growth which would be possible with the driver of a reformed machine-tool industry.

The characteristic of this, of course, is the American System of political economy, which is sometimes not understood in Europe: But the American System of political-economy is quite different than any other constitutional system in the world. We do not have a monetary system, though we sometimes pretend we do. We have a national credit system. And it was known in Germany through Friedrich List, for example. That is, the power to print money is a monopoly of the Federal government. The printing of an issue of money has to be authorized by the Congress, specifically the House of Representatives. The authorization for the printing of money is not merely the issuance of money; it is the creation of state credit, which can then be loaned through a regulated banking system to supply credit for both public purposes, and also for private functions which are considered to be important to the nation. This means that the United States has, contrary to the European systems which are dominated by central banking sys-

1. General Clay was Military Governor of Germany, succeeding General Eisenhower, after World War II.



Eisenhower Library

General Lucius Clay (shown here with Eisenhower), in 1933 allied himself with Harry Hopkins, and became a strong supporter of FDR's New Deal. A delegate to the Bretton Woods Conference, he later became military governor of Germany, a position he held during the Berlin Airlift, which made him a hero in Germany.

tems, its own authority to create its own system of credit, as such. This would imply, of course, in relation to a future Europe, we would be going back to something like the Bretton Woods system of fixed-exchange rates, which was what was necessary for the great recovery in the post-war period.

So that's the general picture—to have legislation, with the intent to use the power of Federal credit, to fund both the takeover and expansion of an otherwise-lost essential part of production; to engage the military Corps of Engineers for its function, for example, national security, disasters, and things like that; and also, for rivers, and harbors, and things of that sort. And also to bring into play, as added employment, taking youth of our cities, who are now headed for a wasteful life, otherwise, and absorbing them, as the Clinton legislation did, into forms of employment and education. And with this kind of expansion of production, we can absorb them, as we did the CCCs and others back during in the 1930s; we can absorb them into a process of employment, education, and personal upgrading. By doing so, it would be sufficient in this way, to get a sufficient margin of increased production, which would bring the U.S. economy physically above breakeven.

Most of the details of what I'm discussing in terms of this reform, this legislation, is either already being reported in the United States, or it will be reported. We're still working on it with specialists, on the details of the design of the legislation, in detail. The kind of thing you do: You have a piece of legislation, then you go into work to turn it into legislation, by going through the stage of making specifications and bringing the experts in. That's in process. And that will be publi-



LaRouche pointed out that Franklin Roosevelt (shown here) set the precedent for the U.S. government to "legislate a takeover, temporarily, of the section of the auto industry which is doomed to be closed otherwise."

cized by us, and also by others, internationally, as the process ripens, as the material is finished, because this has another purpose to it.

We're now at a point where the entire world system, financial-monetary system, is in a state of collapse in its present form. It is not necessary to have a collapse, but the way we're going, we're going to experience one. So, you have two purposes: To try to prevent the collapse from actually occurring; and if it does occur, what do you do to deal with it, when it has occurred. So, the legislation fits both purposes. But, as I said, if we lose the machine-tool sector of the U.S. economy, the recovery's going to be very difficult.

The Difference Between Europe and the U.S.

Now, on the difference between Europe and the United States: We dealt with this problem before, with Roosevelt, in the post-Roosevelt period. While European systems are monetary systems, not Federal credit systems, and it is the nature of parliamentary government to tend to go in that direction, the way we dealt with the reconstructions in the post-war period, was through the Bretton Woods system, in which the United States as a repository of Federal credit was able to enter into long-term agreements with Europe and other locations, which extended U.S. credit as a driver for development of credit for reconstruction, in Europe, for example. And that's the way we'd approach it.

My view is that, because of the present construction of government in Europe, European governments are not ready, legally, to take the kind of reforms that are required. However, were the United States to resume its proper role in this relationship, based on the experience of the immediate post-war period, then such a recovery *in* the United States, through international treaty agreements, would create the process for generating credit through international treaty agreements.

Let me explain what I mean by that: We've reached the point that the natural destiny of Germany, today, in particular, depends upon the development of a new approach, or a new form of approach, to Eurasian economy. We have over a billion, probably 1.4 billion people in China. We have over a billion people in India. Contrary to much illusion, China is not such a secure place right now, because China has been engaged in producing products with cheap labor for the world market, largely the U.S. and the European market. If the European economies were to collapse, you would have a disaster for China. India has made some significant progress in the same direction: It has over a billion people, of whom 70% are as desperately poor as ever before. There are problems. Therefore, if the European and U.S. economies were to collapse, this would be a disaster for India—for all of Asia.

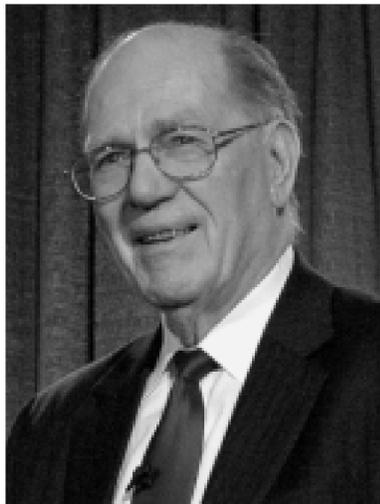
What this reveals is, that despite the progress that has been made in India and China, for example, we have a desperate world situation, in which there have to be fundamental long-term changes, which would enable the countries of Asia to deal with their problems.

We have the configuration in Europe which fits that: You have Western Europe, especially Central Europe, with a relationship to Russia. And Russia is the fulcrum that connects Europe to Asia. The large deposits of undeveloped natural resources in Russia are crucial for the development of Asia. This requires a major development program inside Russia tied to these programs. Because we must develop efficient connections, long-term agreements with places like China, India, and so forth. We must have programs, long-term contracts, long-term investments, and we must then take Western Europe and "crank it up" as we say, to maintain its market role as a generator and supplier of technology, where you would assist in the development of Asia over a 30- to 50-year term.

The U.S. Government Is Ready for a Change

It has probably occurred to you, as you've heard me going through this proceeding, "Well, what about the present U.S. government? What about the present President and Vice President?" That is not something I'm ignoring. Matter of fact, I'm part of the process of trying to bring about a very early change in that situation.

You have a Vice President whose popularity is less than 10% of the population; you have a President whose popularity is less than 20%. You have a Vice President who has now been accused of a crime, in the case of this exposure of Ambassador Joe Wilson's wife. His motive for the crime is now out. And as you know law a bit, that the conviction on the crime depends upon proving to the jury and the judges that the motive for the crime that was committed, was there. And the motive for the crime is now out, legally, in the courts. This does not say exactly how Mr. Cheney will go, but the point is that we are in a situation, where likely the



EIRNS/Stuart Lewis

LaRouche has proposed legislation that would use the section of the auto industry that is slated to be junked, to fabricate material needed to build infrastructure. He is advocating the creation of six new divisions of the military Corps of Engineers to carry this out.

Blair government in Britain, and the French government, and some other governments—the U.S. government is ready for a change, a very sudden, and very sharp change, probably in the near future.

The driver of the change, at the same time, is the recognition that we are in the worst financial crisis in modern history. It can be solved. But in its present characteristics, it's extremely dangerous: You are now living in a period of inflation, comparable to what Germany experienced as a model, in the second half of 1923. If you look at primary materials, petroleum, metals, and so forth, you have a two-fold process which has been characteristic of the recent two months: First, you have a rate of inflation which is accelerating in these commodities. Second, you have a pattern of sharp collapses of whole sections of the market. What is happening is that the hedge funds, which are actually agents of leading banks, are driving a massive speculation, on ratios of actual money-paid-up to borrowed money of 20:1. So, what happens then is, they always overborrow. They're investing in control of primary materials, in the same way that some people, but outside Germany in 1923, did with the idea of coming back in and buying up cheap after the collapse had occurred: The idea was that if the world economy goes, then those who control primary raw materials will have a mortgage on the world. And this doesn't work. It's insane; these people are insane, but they're powerful. And that's a bad combination, big power and insanity.

So therefore, you have, then, because of the bidding nature of this process, you have the periodic sharp collapses in the market—already ongoing. So, you have hyperinflation on the one side, *collapse* on the other side. And this can't continue.

So therefore, this has created a situation, in the financial community internationally, the monetary community, in which the Blair government is reportedly on the way out. You've seen the French government go from seeming awesome power, relative to Europe, to becoming a victim. We're



Prof. Wilhelm Hankel, the former chief consultant of Kreditanstalt für Wiederaufbau (Reconstruction Finance Agency), here with LaRouche at a Berlin conference in November 2001.

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in a period of sudden political change. Because responsible politics can deal with a crisis of this type. You can not simply let things continue to roll in this way.

And we're fully aware of it. And I'm a part of the process of trying to bring about the necessary improvement in the U.S. government. Not a complete improvement, but some, please! At least, some.

So therefore, when I say this is a policy which we're fighting for, which the President would oppose, and Cheney would more than oppose—well, they may not be around so long, in the present condition.

Now, the problem we have here, is exactly that. Is that the central banking systems of the world are hopelessly wracked by this crisis. They say on the surface that, "It's not so bad; we could have problems, we may not have problems." From what I know from the inside, in the United States, and we discuss this with circles of leading economists of various stripes and so forth from outside, and from inside the government, this thing is ready to blow. We have the crisis. And only responsible government, by putting it first that the stability of nations and the avoidance of all kinds of chaos, are necessary, can we deal with the crisis. We can deal with it. The lessons we got from the 1930s in the United States indicate that we can deal with it: If the will of government is there, there are rational things we can do, to reorganize and manage our economies and prevent a catastrophe.

Man Is Not an Animal

Now, the key problem we have, and it's a problem which is characteristic of European history: Europe which began, as Europe, essentially by the influence of some Egyptians on the

development of the Greeks—such as Thales, the Pythagoreans, Socrates, Plato, up to Eratosthenes and Archimedes—defined a basis for civilization of the ability of human beings not to live by treating other human beings as cattle, but a society which had sufficient productive power and requirement of use of the human intellect that you could have a state of the type that Solon spoke of, or that Plato spoke of in *The Republic*. Now, this has been the tendency in Europe all the way through, despite the Roman Empire, despite the Byzantine Empire, despite the ultramontane system of the Middle Ages, and despite all the modern problems.

And its treatment by the Treaty of Westphalia is a benchmark, just as the Golden Renaissance was, where Europe took the legacy of European tradition, and brought it forth, first in the Renaissance, and then after, in the Treaty of Westphalia. Things went bad after that, but nonetheless, the principle was established. And therefore, in European civilization, if we're civilized, if we participate in the civilized side of it, we know that there's something about man, that is different than an animal: Man is not—contrary to either Thomas Huxley or to Frederick Engels—man is not an ape. And the distinction is key for economy, which is especially my kind of economy, which comes from Leibniz: the idea of physical economy. That economy is physical primarily, and financial and monetary only as a way of handling the thing, as administration.

What is this physical economy? If we were apes, the human population would never have exceeded, under conditions known on this planet, a few million individuals. We now have over 6 billion individuals. Why? Because we increased our power, as a species, over nature. And as

Vernadsky, the Russian scientist, indicated, not only does life take charge of non-life on the planet, with the rise of the Biosphere out of a pre-biotic planet; but the part of the planet, the growth of the planet, the change of the planet due to the accumulated actions of man, particularly the creative actions of man, is more rapid and more powerful than even the process of life itself.

The key here is that—the key to economics, which is often not understood, particularly in today’s economy—is that the increase in the productive power of labor, comes essentially from the equivalent of original scientific discoveries, typified for example by the discovery of gravity by Kepler, or the discovery of quickest action by Fermat, or the discovery of the calculus by Leibniz; and the discoveries of Gauss and the discoveries of Riemann: This understanding of discovery of a universal physical principle is the distinction between the ape and man.

The reason we’re able to have 6 billion people on this planet, today, is because of an accumulation of discoveries, made by people, embedded in cultures, over centuries, over millennia, which increase the power of the species, which make man, in a sense an immortal species: Through the ideas we develop and convey from the past into the future, we have a certain, very specific immortality, even from the standpoint of economy. Because, it is the ideas embedded in us from successive generations, ideas that correspond to fundamental discoveries, that distinguish us from the apes, or from people who like to act like apes. And therefore, what’s often lost in economy, is the importance of emphasis on actual creativity, of the type demonstrated by fundamental scientific discoveries, and also by good, Bachian choral music and so forth—but essentially by science.

And therefore, the problem we have today, particularly in the so-called post-industrial culture, the zero-technological-growth culture, the acceptance of this change from about the middle of the 1960s to the present, has been the fundamental shift in European civilization in particular, over this period. Up to that time, despite all our mistakes, we still had a leading section in most societies, who believed in scientific and technological progress. We took pride in the machine-tool design specialist, who is, in a sense, the link between science and the improvement in technology at the point of production.

Now we’ve destroyed this: We’ve destroyed the infrastructure upon which industry depends. It shrinks. It vanishes. And with it, vanishes knowledge. The significance of these machine-tool designers that I’m trying to save in the United States, is that they typify the fellow who takes a physical discovery by a scientist and devises the equipment in the laboratory to give a proof-of-principle test of the validity of the discovery. That same machine-tool designer then goes over into the plant, and builds the lessons of that construction into something, or into many kinds of things. And this is the specific method of progress. This is what farmers did.

Progressive farmers did the same thing in their own way. And that’s what we’ve destroyed.

The success of what I’m proposing be done, depends upon taking young people, essentially young adults, who are coming up in society now, who represent the next 50 years of the economy, because we have to make investments which are going to be 25-year to 50-year life-cycle investments: We need a generation of young people, who are oriented toward scientific achievement, or to its application. We need to shape employment in education, in ways which give us more of these kinds of people. And we have to turn them loose, and say to them, “You are the future. It’s in your hands.”

What I’m proposing as an action, depends upon that. If we can not say to a demoralized world, of a reigning generation in the United States and Europe today—which does not believe in the future!—and say to the young people, who would like to *have* a future: “We’re promising you a future.” And that, what we then do, is we tap the greatest of all economic resources, which we may call “increase of productivity”: By telling young people, that we’re going to support them, in developing in their role as the creative personalities, whose combined efforts are going to lift mankind up over the coming 50 years, that they will be running the workplace.

Thank you.

If You Thought Adam Smith Was The Founding Father of America’s Economic Strength—

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Friedrich List: Outlines of American Political Economy

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—Friedrich List

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