

For the economic development of Eastern Europe

by Lyndon H. LaRouche, Jr.

This memorandum on the perspectives for the economies of the former East bloc nations, and some critical conceptual questions of economics in general, was transcribed and slightly edited from oral remarks by Mr. LaRouche from his prison cell in Rochester, Minnesota on Dec. 10, 1990. LaRouche, an announced candidate for President of the United States for 1992, is being held a political prisoner.

The following memorandum should be read together with a selection of papers authored by myself, plus a letter on the subject of the Strategic Defense Initiative (SDI) to President Ronald Reagan. My papers, written during the period 1981-84, are on the subject of prospective U.S. policy in addressing specific problems both of relations with the Soviet Union and of economic policy respecting problems of economic development of the Soviet Union and associated states of Eastern Europe.

These papers at the time centered around a project which came to be known as the Strategic Defense Initiative, so named by the Reagan administration. This project was initiated by myself beginning in 1981 in response to an approach by a Soviet representative then based at the United Nations. As a result of this, a back-channel discussion was set up, coordinated with the national security institutions and selected high-level layers of the national security apparatus of the United States, and the Soviet government, for the purpose of exploring potential Soviet responses to my proposals.

The 'Productive Triangle'

The special current relevance of these materials, which constitute in effect a kind of white paper on the background of the SDI, is that we now face a calamitous situation, in which, with the changes in Eastern Europe and the crises erupting in both Eastern Europe and the Anglo-American sector most emphatically, a new



Klaus Fimmen

Brown coal, the main energy source in Communist-ruled East Germany, generates enormous pollution. It must be replaced by energy-intensive technologies, especially nuclear power.

approach to the Eastern European problems, based on many of the same principles treated under the earlier SDI rubric, is now required. The new approach centers not upon the United States as the point of origin, but rather upon Western continental Europe as the point of origin, in part because Western continental Europe, together with Japan, is the only section of the world economy viable, at least to the degree of being capable, of launching the kind of global economic recovery initiative required at this time. The current approach is focused upon what is called the "Productive Triangle."

The Productive Triangle, documented in other locations, is identified here as a small area, approximately about the geographical size of Japan, with a population of slightly over 100 million persons presently, covering an area pivoted upon three principal cities in Western Europe—Paris, Vienna, and Berlin—and including the greatest concentration of density of productive power of any comparable area on this planet. It is seen that the economic organization of Europe, if it is to have a rational form at the present time, must be viewed as a development centered within this Productive Triangle, connected to the other principal centers of Europe by what we have chosen to call "spiral arms." The spiral arms are characterized largely by more or less broad channels of combined rails, power, and production, linking such cities as Berlin to Soviet locations such as Leningrad or Moscow, or to Kiev in Ukraine, and similarly linking other points of the triangle to other parts of Europe. The integrated economic development of Europe, by aid of the spiral arms into this

triangle, is the approach which is seen as uniquely applicable to assisting in solving the present deadly crisis within Eastern Europe generally and the Soviet Union in particular.

The similarity of this triangle proposal approach to what is proposed under the rubric of economic development prospects under SDI cooperation, is that it involves the transfer of advanced technology in soliton-like shockwave transmission from the centers of machine tool and related development into all parts along the most efficient pathways, which are associated with, for example, high-speed rails, but also including inland waterways, coastal waterways, and so forth.

With that said, let us look briefly at the problems we are addressing. In point of fact, the world has now entered a depression in which the only areas of the world which are not plunging into the very depths of the depression are Japan and Western continental Europe, most specifically a Germany-centered Western continental Europe. Without German economic development, even Western continental Europe as a whole would sink into a depression comparable to that which is now crushing the economies of the United Kingdom, North America, Oceania, and the developing sector generally.

Primitive accumulation, East and West

There are several problems which are responsible for this, but let us focus upon the problems which are most relevant to the area of the former CMEA (East bloc trading system) nations, including the Soviet Union. There are two principal, crushing problems with the economies of the Sovi-

et Union and the other former CMEA states. One is fairly described and is understood within the Soviet lexicon as "socialist primitive accumulation," using that term as it was employed during the 1920s and early 1930s by Soviet economist Yevgeni Preobrazhensky, a term which Preobrazhensky credited rightly to Rosa Luxemburg.

To put the matter in perspective, primitive accumulation does not have to be limited to the so-called cases of states

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with socialist constitutions, although it is savage enough there. We have primitive accumulation occurring under the rubric of Adam Smith policies characteristic of the Anglo-American system, the English-speaking system, especially today. It also occurs in such other, derived, Adam Smith forms as the old colonial, neocolonial systems, including the present International Monetary Fund (IMF) conditionalities and General Agreement on Tariffs and Trade (GATT) arrangements.

Primitive accumulation signifies, essentially, a modern name for, or is another term to describe, usury or the effects of usury. Usury is expressed for us, of course, simply as financial usury, but it takes three notable forms.

First and most obvious is the usury in the private financing of public debt and the rise of central banking systems from which holders of public debt, through their banks, take control of the central banking systems and control of the currency and credit mechanisms of governments and whole conglomerations of states. Secondly, usury is associated historically over thousands of years with oligarchies and monopolies, in control of marketing of essential, primary raw materials, such as food cartels. Third, we have primitive accumulation in the form of looting, largely through financial and "free market" practices, of industry, of agriculture, and of the usage of real estate for such purposes as industry, agriculture, home rental, and what-not.

The collapse of the Soviet Union's economy can be attrib-

uted to three principal causes: First, the use of primitive accumulation as a source of capital, in the sense that was discussed by Preobrazhensky back in the 1920s and later; second, the added burdens on Soviet capital of military expenditures, which essentially had the effect of aggravating the intensity of primitive accumulation; and, third, the inability of the Soviet system to assimilate the most essential aspects of a successful industrial society. It is to the last, that we turn our attention briefly now.

Fundamental scientific discoveries

The essential feature of true economy, as physical economy was defined by Gottfried Leibniz, is that distinction in human practice—or you might say human ecology—which sets man absolutely apart from or superior to all other forms of animal life: that man is capable, unlike any beast, of generating genuine fundamental scientific discoveries respecting the laws of nature, and doing that to such effect that man's practice is changed and improved, so that man is constantly becoming a species superior to himself as long as this practice of scientific progress is maintained.

What is poorly understood by most in this case, is that the powers of creative reason, by means of which scientific discoveries are generated, transmitted, and assimilated in practice, are processes which are sovereign within the individual personality; and, for that reason, a successful economy—one which is based on technological progress—requires within it, a special protection and fostering of this quality of individual creative reason, as opposed to a kind of Schelling-like collectivism.

This is shown in successful forms of modern industrial society in the following terms. A successful society, of course, includes conspicuously a modern industry. That was always understood by the Soviet leadership; other aspects of this were not so well understood.

It also requires an independent, entrepreneurial agriculture, one of whose best typifications, up until one or two decades ago, was the high-technology American family farm and similar kinds of farms in France, West Germany, and so forth. This layer is called the *Mittelstand*. It includes family farmers, who are productive in the sense that industry is productive; the small, but very high-technology machine tool industries; repair facilities which are state-of-the-art repair facilities; and also construction firms which, in the sense of high-technology, are the ones that make technology work.

Infrastructure requirements

The other requirement is basic economic infrastructure, which has two aspects. One is what we call the hard or physical infrastructure, which includes transportation, fresh water management and water management generally, power generation and distribution, and communications. On the softer side is scientific and technological research as such, education related to that, and delivery of medical and related

health services to the population.

Economic infrastructure in Western countries, for example, has been most successfully maintained either as public works or as public utilities—i.e., private enterprises chartered by and regulated as to crucial performance standards by the government. Industry has been generally more successful as private industry, apart from some exceptions including the case of the arsenals in U.S. history; but agriculture, machine tool, and related sectors—the *Mittelstand*—have never been successful except when run as essentially private, entrepreneurial enterprises.

Let us look at some of the problems here. Take, first of all, infrastructure. The best case to compare with the case of Soviet failures in infrastructure, is the case of India. Despite the efforts of Prime Minister Jawaharlal Nehru and his successor and daughter, Indira Gandhi, to bring about the economic development of India, and despite the certain degree of success they obtained, their efforts in general were constantly frustrated by the blasted Indian bureaucracy, which always saw to it that no fundamental changes were brought about—changes which might have altered the social character of the composition of the Indian population, such as raising the lower castes or scheduled castes to equality through technological progress.

Therefore, although India had one of the world's largest development budgets, the bureaucracy has seen to it that certain programs such as development of the rail transport system, or a comprehensive fresh water management system, or power generation and distribution, have never been accomplished effectively in India—not because the means were lacking to do so, but because the Indian bureaucracy successfully sabotaged any effort to do so. Nehru was constantly frustrated by the bureaucracy on such counts, and Mrs. Gandhi, too. After Mrs. Gandhi's death, the situation went from bad to worse on this account.

In the Soviet Union and in the Eastern European countries we see the same thing. We see the stockpiling of labor and the breakdown of basic economic infrastructure, the stockpiling of labor and industries where the labor should have been used for the development of large-scale infrastructure projects in transportation, power generation and distribution, water management, and so forth. We see also a resistance to technological progress in the industries. Part of this goes to the simple lack of economic understanding.

Reading from Soviet and Eastern European literature of today, these problems appear not to be adequately comprehended. The picture we receive from such readings and similar observation, is that even leading circles within the Soviet republics and Eastern Europe, while aware of the acuteness of the problem, really reflect a great deal of floundering as to what the alternatives might be. That is, they are aware that the old system has failed, but they are not aware of what the alternative might be or how to get to any alternative. There do appear to be some who *think* they know what the alterna-

tive is, but in our view the proposed alternatives are worse than the disease.

The worst example, the most dangerous model is the so-called Polish model of Jeffrey Sachs and company. This is the worst of all possible choices. We have, admittedly, or did have, stockpile-labor in Polish factories, as a way of absorbing unemployed into employment rolls, by simply tacking them on to the employment rosters of the plant. However, the solution is not to dump these people into the streets, but rather to absorb them immediately in relatively high-technology projects—much-needed projects in basic economic infrastructure. Otherwise, this is just adding the Adam Smith form of primitive accumulation to what might be called socialist primitive accumulation, and keeping the worst of both worlds. That is what is happening now.

Marxism and the British Lombard system

I observe with some dismay, but with understanding, an amusing but appropriate joke, which the media report as being told by Soviet President Mikhail Gorbachov: French President François Mitterrand has 100 lovers, and does not know which one has AIDS; George Bush has 100 security guards but does not know which one is the terrorist; and Gorbachov has 100 economic advisers and he does not know which one is sane! It is obvious that the Soviets and other Eastern European countries have been grasping for an alternative to the fatal Bolshevik model and practice. They are grasping at straws and have no clear idea of what works and what is acceptable, particularly under pressure of political and economic fragmentation. The Soviets, under the food and other shortages, have been susceptible to accepting the false notion of Thatcherism and similar Adam Smith models, as representing the success of the West, and the alternative to which the CMEA nations have recently returned.

Obviously, the collapse of the Bolshevik economic system in the form that it existed in the 1980s, strikes Eastern Europe and the Soviet Union with such dismay that there is a tendency to look to the West, on the presumption that Western propaganda is true and the Voice of America is reliable, to the effect that all Western economies are successful and follow the same so-called "free market" principles.

Precisely the contrary is true, of course; but, nonetheless, it appears that in Poland and in Moscow, there is no manifest clarity, on the surface, in reported discussion, on what is the alternative to which the Soviet economic reforms ought to lead. There is a disturbing predominance of tendencies to accept the cancer of Thatcherism, as an alternative to the cancer of primitive accumulation which the Soviet economy had already contracted, forgetting that Thatcherism is nothing but the Western form of primitive accumulation.

Apart from the fact that Soviet economic policy-makers are just simply not acquainted with the internal economic history of the dispute between the American System and the Lombard British East India system, there are specific features

of education in Marxism which tend to foster this disorientation, and these should be mentioned. First, Marx does not recognize the distinction, in the foreword of *Das Kapital*, between what might be called the American System and the British liberal system, except to prefer the British system as allegedly "more scientific."

In a quite related way, Marx's *Das Kapital* is permeated by his second error, of which he takes some note. He says repeatedly in *Das Kapital*, that he is leaving technological progress out of account, and this at crucial points, as in the latter part of Vol. 2 and the early parts of Vol. 3, as presented by Engels, in the presentation of what would be called today an attempted solution of a rather simplistic set of linear inequalities, as a way of representing capitalist accumulation. This leads of course in Vol. 3, into the famous paradoxical section on contradictions in capitalist accumulation, in which Marx notes with factual accuracy, but faulty analysis, that in capitalist growth—by which he means British liberalism and British East India Company growth in this case—the success of investment results in capital obligations whose demands far out-run the rate at which profit can be generated by production. Marx completely misunderstands that. Of course, what he says is true, that whenever the Adam Smith system or some approximation of it prevails, this is precisely the result. However, the reason he gives for it is the wrong reason. That is crucial.

Technological progress is the key to it. Wherever technological progress—capital-intensive, energy-intensive investment—prevails as a policy for society, the result which Marx sees as the law of capitalist accumulation, does not occur.

Secondly, Marx does note, but does not understand, that this contradiction of capitalist accumulation to which he refers, occurs in the discrepancy between the underlying productive forces, i.e., the physical reality of production and distribution of physical goods, and the accumulation of money or obligations for money payment. Essentially, Marx does not understand this money issue; that we see from very early on in *Das Kapital*, in his attempt to deal with the sources of money, the gold-monetary relations throughout.

Leibniz, List, and the American System

Those in the Soviet Union who were schooled, more or less, in Marxian tradition—that is, the available interpretations of Marx by the so-called experts, excepting Rosa Luxemburg—would naturally be misled. If they see the failure of the Marxist-Leninist economic system, as least as it has been taught, they would tend, so to speak, to go back to Marx's sources—the British East India Company and the Physiocrat sources—and look at those things in the world about us which seem to be approximately successful and relatively wealthy, and which accord most nearly with the "free market" ideas of Adam Smith and Physiocratic ideas of Quesnay. That is the source of this misunderstanding.

As I have emphasized to Soviet interlocutors again and

again, the crucial problem which I have had to face in dealing with Soviet circles, in matters of the economy, is their failure to see that Adam Smith was anything but scientific, and to see the failures and dangers of the Physiocratic system of the opponents of Jean-Baptiste Colbert and Gottfried Leibniz. The essential thing, from the standpoint of Russian economic history, which I have emphasized also, is that to understand modern Russian history, we must go back to the time of Peter the Great, and consider not only the proposals which Leibniz presented to Peter the Great for the development of Russia, but examine also the success of the implementation of those proposals, up to the point that Peter's successors reversed these proposals, and reinstated serfdom, and so forth.

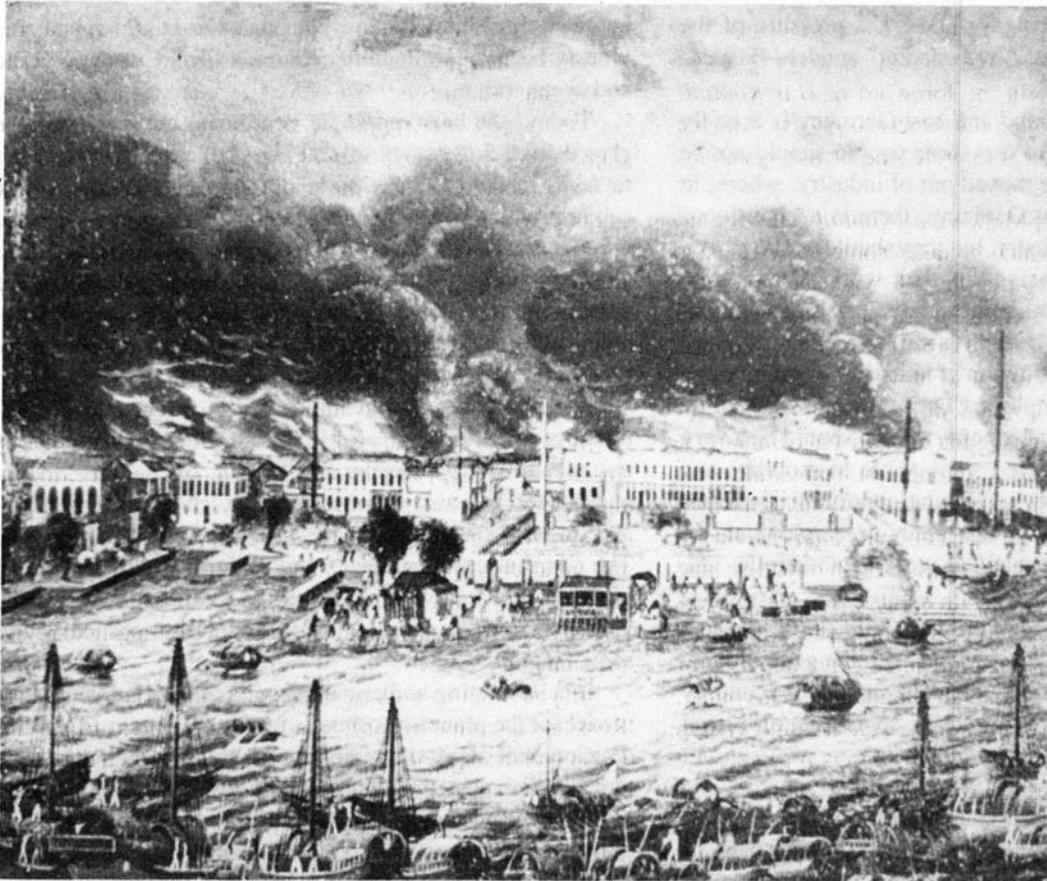
It must be remembered that it is a fair estimate that by approximately the middle of the eighteenth century, the industrial development of Russia outpaced that of England. It was only after the return to a more feudalistic regime, that the great ebb in Russian economy began, which persisted into the time of Czar Alexander II, when again a revival occurred. Later, we have P. A. Stolypin attempting to revive the same thing.

If you want to look at the successful period in modern Russian economic history, you have the period of Peter the Great and the decade immediately following, then the period under Alexander II, Count Sergei Witte, and Stolypin. These relatively great periods of success should point Russian thinkers to the proper point of inquiry, to Leibniz and to the American System, and to understanding the quarrel on economic policy as the principal immediate feature of the conflict between the Americans and the British in the 1776-1815 wars of independence; also the principal motive in the British creation of the Confederate puppet government, in the attempt to destroy the United States in the middle of the nineteenth century.

I would emphasize again these two points, that the Russian lack of understanding of the contradiction in economic policy within Western Europe and the Americas, is partly the result of the influence of Karl Marx's writings, and of Marxist writings on the points I have noted.

The role of the state

The parallel between my proposals for development of the SDI and the development of the Productive Triangle, is that both require that a state function using three principles to foster rapid growth in a manner consistent with the earliest conceptions of U.S. Treasury Secretary Alexander Hamilton and Friedrich List, and Leibniz before them. The American System is the development of basic economic infrastructure by the state, and the understanding that it is the state's responsibility to generate the credit, the direction, and the maintenance of these projects. This is done either directly through state economic action, with the state as employer and economic entity managing these functions, or through the state creation of a relatively global system of regulation, within



The Adam Smith school of "free trade" in action: This is a painting of burning opium warehouses in the Bay of Hong Kong during the Opium Wars, which the British Crown launched when the Chinese resisted the free trade in opium.

the boundaries of the state and in cooperation with other states. The latter allows private interests to build, operate, and maintain some infrastructure monopoly, but under state control or regulation of that monopoly, under conditions which must be fulfilled in order to continue to enjoy that monopoly. That is the American System, as implicit in the first section of Article I of the U.S. Constitution. That is one method to foster growth.

The other is of course the fostering of technological progress, which means also a fostering of entrepreneurial activities in two respects. There must be a state-sponsored, i.e., national consensus, task-oriented project orientation, which has two aspects. One is a fostering of very high technology for the small entrepreneurs, exemplified by the machine tool shops, high-technology repair shops, and so forth, and the other for private agriculture and manufacturing.

The project which comes to the core of Leibniz and of the idea which is presented here, is the SDI, as it was conceived and presented to the Soviets as well as to the United States. It was a crash program employing new physical principles developed as an aspect of strategic ballistic missile and related military defense in such a manner as to spin off into the economy new machine tool types consistent with the same technology—the idea of the laser-related machine tools, the ultra-high-temperature, high energy-flux-density

plasma processes, and so forth. These things should become the commonplace of production through spinning off the military machine tool sector directly into the civilian machine tool sector, which thus is transformed. This technology applied to the smaller machine tool field, is spun off into agriculture and industry at the same time, and thus you get a highly rapid rate of per capita growth of productivity and standard of living at the same time.

We should also emphasize that large-scale state, or state-sponsored, or state credit-sponsored employment, in terms of the development of infrastructure (including education and medical health care delivery), is also a proper stimulus to the economy.

It should also be emphasized that there should be a policy of close to zero unemployment, of less than 1-2% actual unemployment of the candidates for the labor force in the economy, and this is to be accomplished by expanding infrastructural projects, not as artificial or arbitrary make-work, but as needed infrastructural projects, and expanding the completion of these projects to absorb idle labor. The stimulus to the economy provided by the employment and purchasing activity of the infrastructural projects, moves the economy as a whole.

Thus we see particularly the insanity which is developing in Poland under the Sachs model, and threatening to be a

characteristic of east Germany, under the pressure of the Anglo-American so-called “free market” model—Thatcherism.

Unemployment in Poland and east Germany is actually criminal folly, in the sense that these people should not be unemployed; they may be moved out of industry, where, in the case of Poland or east Germany, there is a superfluous redundancy in that big industry, but they should not be moved out into the streets. Rather, redundant workers should be moved out and absorbed appropriately in large-scale and other infrastructure projects, such as rail, water management, power, and even the construction of housing and so forth, so that no one should be unemployed, because that is an absolute waste and tends to glut the economy. There should be a very small fraction of unemployed attributable to mobility and special problems. There should be the opportunity to foster employment, by opening up the gates of employment in needed and economically justified work to absorb the idle labor.

This policy of developing infrastructure on the highest technological basis possible, together with the general view of things like SDI as the technology-driver for the economy in general, should be basic. However, something else must be considered: what I call the river principle.

The river principle and transportation arteries

If we look at the history of Europe and of other parts of the world, we see a peculiar way in which water has played a decisive part in shaping the economic history of mankind, at least the successful portion of economic history. It is evident too, that the use of the seas, large lakes, and oceans for fishing and similar purposes, is one of the optimal ways of furthering communication and creating quasi-urbanized to urbanized civilization for simple physical reasons. It is through such communication, that the basis for systematic agriculture developed, by the bringing of various kinds of plant and animal types together in one location, and by the use of oceans or rivers for travel.

It is also seen that the logical continuation of quasi-urbanization, in particular some of the models of large rivers, tends to lead to an up-river kind of development—for example the Greeks. The conditions of water, energy, and logistical possibilities provided by water transport are crucial. This is obvious in relatively modern times in the case of the development of Europe, according to the plan of the administration of Charlemagne—the great canals and great transport network linking all of Europe into one system, or attempting to.

If we stand back and look in lapsed-time photography of the history of Europe, we see how these developments of inland and ocean and sea transportation determined the development of agriculture and urban life, and the economic history of Europe as a whole. We see with the emergence of the powered machinery, going beyond water power which is a part of the simple water system of development, that the

powered machinery naturally followed lines which had previously been determined in economic life by water systems and ocean travel.

Today, the basic principle continues, but if we wish to give them a finite stock of real physical capital, if we wish to take, in effect, the highest rate of improvement of per capita productivity and per hectare productivity of a region, we concentrate, in the sense of leading edge of concentration, the application of that physical capital along routes which correspond to ocean-river travel routes, and spread inland to other parts from there. Or, we use rail routes, which are more than rail routes—arteries—in a similar fashion.

By artery, we mean generally use of a river route, ocean route, or rail route as an artery. It is a pathway for movement not only of rail passengers and freight, or river passengers and freight, but also of other things, such as the generation and distribution of power, which is centered in this artery. The distribution of pipelines and so forth would tend to be centered in some way in association with this same artery. You will find the distribution of population shaped in the same fashion.

It is interesting sometimes to compare the Kepler-Gauss model for the planetary orbits, with what happens in healthy development along the major arteries. The large urban centers are like planets, with material following along in the orbit between these planets and so forth, with a concentration of mass in the urban centers, like a planet.

From these arteries, the impulse of the economy, the index of activity per capita, per square kilometer, moves out into the surrounding landscape, so that the development of the surrounding landscape is based immediately on the local service from urban centers on the main arteries.

Thus we have something which is very much like an astrophysical phenomenon. The development of Europe is the result of such a history.

Three great cities

We have the emergence of a triangle, which is approximately Paris-Vienna-Berlin—three great cities in Europe. The fact that these are (or were) three very great classical cities is not accidental. These were intended to be centers.

Look at Vienna. Vienna is the center for the Danube, southern Europe. It is also the product of the Ostmark development. You have Budapest, which has a similar characteristic. When you look at Czechoslovakia, you see the Moldau connection into the Elbe in Prague, as reflecting something quite similar. You see Berlin, even though it was something of an artificial city, it was not really artificial the way it was developed; it had similar characteristics cutting into this great river system. We can go from Prague, by the Elbe River system, into Hamburg.

Berlin was developed as a classical city. One stands in the city of Berlin and one sees, in the way in which the city as a whole was designed, that it is a classical city. Vienna is

in many respects a classical city. Paris is in most respects a classical city, up until recent, insane speculative forms of real estate development began to make the city economically and ecologically sick and degenerate.

These three cities are crucial, and we see why. We look at the river systems, the inland transport systems, and we see exactly why these cities played this role. We see why also the very peculiar density of population concentration, urban concentration, and concentration of productive power within what we have designated as this triangle historically.

'Spiral arms' of development

Now we stand back again and look at this also historically. We see that the natural development, from this kernel, this core, this triangle, of the economy of Europe, follows the pathways of what might be called "spiral arms." The term spiral arms is, partly, simply descriptively suggestive, but also it suggests a principle involved: the principle of spiral arms in developing galaxies. A natural and economical flow of production and materials is along these spiral arms. The greatest productive and energy efficiency is in these spiral arms, in such measures as per capita and per hectare density of physical output, also in ton-kilometers per hour, these efficiencies are absolutely crucial.

For example, take the problems of distribution of food and other essentials within the Soviet economy. The lack of an efficient rail system, at least high-speed double track and effective turnaround of boxcars, is showing its crippling effect. Other factors have entered into the recent disaster there, but the breakdown of the transportation system has been the most conspicuous feature of this process. So, the single-track system in the U.S.S.R., the lack of a double-track system or a very high-speed system, which I will come to in a moment, is crucial and prevents the Soviet economy from a rational, healthy development.

Just look at the population density of the U.S.S.R. in persons per hectare, and production per capita, per square-kilometer, over the U.S.S.R. as a whole. Look at the lines of communication—production, communication, flow of freight. In order to have the same efficiency as Western Europe, at what rate and what cost must freight move from Vladivostok to Moscow or Kiev? These are very obvious things. The military person would look at these things from a slightly different standpoint, but come up with the same observation. This is what the Soviet Union's development requires, as did that of the United States in the mid-nineteenth century: the most advanced sort of transportation to make its production approximately competitive in productivity with Western Europe during the foreseeable future.

What has happened is that the Soviet and CMEA economies used what Preobrazhensky would undoubtedly have still called in the postwar period "primitive socialist accumulation," to overcome or to compensate for three problems, apart from the sheer burden of a high per capita rate of mili-

tary expenditure relative to other countries. The first problem, was to compensate for underdevelopment by super-exploitation: low wages, and so forth. Second was to compensate by running down natural resources without putting modern infrastructure into place to develop them. Third was the failure to deal with the follies of agriculture: to recognize that agriculture had to concentrate primarily in the Black Earth areas and that the traditional form of agriculture in the Black Earth areas had to be improved upon in the same manner as the agricultural revolution had occurred around the family high-technology farm in the United States or in Germany or parts of France under de Gaulle.

Depletion of resources

Therefore, primitive accumulation—the depletion of the existing man-made and natural resources, including human beings, to try to compensate (relative to the military requirement) for the lack of policy—is the central problem which has to be addressed now. What was lacking in the U.S.S.R. was an understanding of the Leibnizian principle of technology.

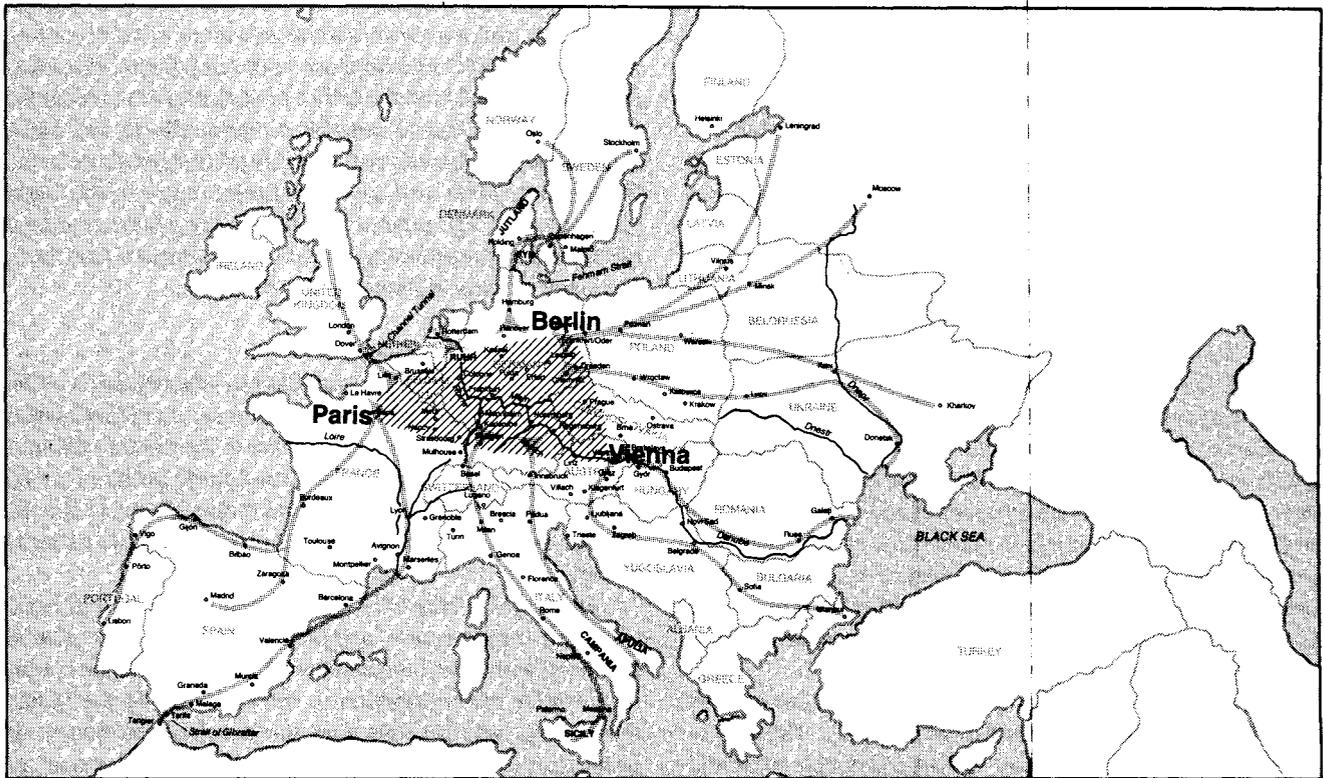
There was a lack of understanding of the role of basic economic infrastructure, and on top of it, an almost oriental cretinism within the bureaucracy. When I say oriental cretinism, I refer for comparison to the cretinism of the Indian bureaucracy, which mishandles the development budget of India, to prevent over decades a rational development of water management, of rails, of power generation and distribution. Similarly, in the Soviet economy, there has been a bureaucratic mismanagement of an oriental cretinism variety, which has prevented the understanding of what the problems and priorities are for actual growth.

Primitive accumulation in these forms—that is, the depletion of resources combined with the failure to introduce the benefits of technological progress in the economy generally—results in the lowering of the actual reproduction potential of the society per capita, as is described in a recent book of mine, *The Science of Christian Economy*. This means that while society is maintaining a strong front (in terms of military potential), behind the military front, which is maintained in large part at the expense of the inner civilian economy, the civilian economy is collapsing. The civilian economy's roots are rotting out, and the whole structure then topples. The problem brings about the collapse of the entire structure, to the point where we now are.

A community of interest

Had the Soviet government, in 1982 and early 1983, accepted the concept which I presented to it along these lines for the use of a necessary change from Mutually Assured Destruction (MAD) to strategic defense, to effect a common global effort for the use of methods based on new physical principles for the rapid change not only in military but the civilian areas of the globe, the present crisis and the present

The 'Productive Triangle' and its spiral arms



problems in the U.S.S.R. would not exist.

But that is water over the dam: We cannot go back to 1982-83 and correct the error; we can learn the lesson from it. We have now, in reduced circumstances relative to 1982-83, a new opportunity, which is the Productive Triangle, which, it should be recognized, embodies, essentially from a different basis and context, the same principles which were embodied in the intent of the earlier proposal for strategic missile defense based on new physical principles.

The other problem here, which must be faced, and yet must be avoided, in a sense, is that the question is posed—as it has been posed since Dante Alighieri's *De Monarchia* and his related writings at the beginning of the fourteenth century—that the development of representative government, and also, I would add, the development of economy, requires a notion of national sovereignty based on two things. First, principles of self-government accepted by the people, i.e., a constitutional notion in the tradition of Solon; and second, the deliberation by the population and within the institutions of self-government, in the medium of a literate form of spoken and written language.

Thus, the question of what should be the political fate of the arrangement within what is called the Soviet Union, must attract our attention on this matter of principle, because we are dealing precisely with the defense of the principle of

sovereignty. What do people do with this problem? That is their sovereign decision to make. Therefore, the basis of cooperation must not be dependent on any arbitrary or negotiated assumption respecting the political future of Eastern Europe or the Soviet Union on this problem. Rather, we must say, that whatever the peoples of the Soviet Union do, whether they seek to divide from one another, in the sense of setting up separate states or maintaining some form of several or confederated central government, certain things remain concrete. These people have, together with the people of Western Europe, a certain fundamental common interest, in the economic security and well-being of one and all.

The most successful negotiations, and other related efforts, will be those which are equally appropriate (from a standpoint of this notion of common principles) for any outcome of the present developments within the Soviet Union, respecting the subjects of separation, confederation, and federation.

Credit generation and banking

If there is not large-scale infrastructural development of the type we have indicated in Eastern Europe and the Soviet Union, as well as further infrastructural development in Western Europe, which is important, the situation in Eastern Europe and the Soviet Union is more or less a hopeless one.

Perhaps the most crucial obstacle to infrastructural development is the widespread and rather intensive belief, one may say blind belief, in the delusion that credit for large-scale infrastructural projects can be obtained only in the way in which the Bank of England, the present IMF and World Bank, and like-thinking institutions would prescribe. Fortunately, the belief is a delusion. Unfortunately, as we have indicated, the delusion is thus far widely accepted.

In the history of the past 500 years of development of the economies of Western continental Europe and the Americas, there are two opposing models for the creation of public credit for financing of basic economic infrastructure and promotion of trade. One is the familiar one, which can be called, from the history of feudal times, the Lombard model: the model of central banking based upon the principle of usury. The opposing model is sometimes identified with the American System of political-economy, that is, the system associated with Treasury Secretary Alexander Hamilton, Mathew and Henry (father and son, respectively) Carey, and with similar figures in Europe.

In the American experience in particular, this alternative to usury first appeared in the Massachusetts Bay colony in the middle of the seventeenth century. This colony, which was independent of the Parliament of Britain by virtue of a charter, and subject only to the monarchy, created its own domestic currency as a fiat currency drawn on the credit of the Commonwealth. Massachusetts Bay then used this credit by loaning it at very low prices, in the form of national banking, to foster circulation of goods produced in the Commonwealth, to foster what became a spectacularly successful growth in iron industries and other industries in the region.

This method of state credit was suppressed after the events of 1688-89, though there was a campaign for its restoration by Cotton Mather, and also in Benjamin Franklin's famous paper on the subject of a paper currency.

These methods were introduced cautiously as a form of national banking under President George Washington, at the initiative of Washington's Treasury Secretary Hamilton. Formally, this method of financing was used periodically up to the time of the late 1870s, until a corrupt Congress and President put into law, a British-sponsored proposal known to the history books as the U.S. Specie Resumption Act. Despite the Specie Resumption Act, which put the public and private credit and currency of the United States under the tyranny of London, these same methods of national banking were used in a mixed form later, notably in mobilizing for war.

National sovereignty

The same principles can be adduced from the history of Europe. The principles are as follows: "Sovereign" government signifies that the government must be sovereign in all respects, including in currency and its indebtedness. Except as a government may be obliged to go abroad for the material

means of sustaining its domestic economy, there is no reason for accumulating a large foreign debt. As in the case of seventeenth-century Massachusetts, the fostering of development involves responsibility for the outcome, using methods of national banking to create a national currency in adequate supply, for purposes of lending this currency and credit at low interest rates to producers and sellers, and also domestic borrowers, and in some cases, foreign borrowers. If these loans are made prudently, that is, principally always for the production and circulation of useful physical goods, then the national debt created by the generation of this credit currency, will lead to no catastrophe or great disorder. Under these conditions, and under condition that capital-intensive and energy-intensive investment in scientific and technological progress is the mode fostered by the use of such credit, then the growth of national wealth, including the tax revenue base of the government itself, will always exceed (barring national catastrophe such as war) the amount of debt incurred by the state on account of issuance of such credit.

Thus, we have the two systems of credit. One, associated with the American System, is that the state creates a currency and maintains a monopoly on that currency, forbidding the creation of currency by private banking interests, or the creation of currency in one's own country by a foreign agency. The true national banking mechanism, including private banks which work with the national banking institution, circulates this created credit, or currency, at low interest rates to selected categories of borrowers.

The selection is based on consideration of prudence, ordinary banking prudence, and otherwise according to criteria of the type I have just indicated. These criteria are that scientific and technological progress should be fostered in a capital-intensive, energy-intensive way, such that rises in productivity and in absolute product, generated by use of credit at low interest rates, result in a greater production and rate of production of physical wealth, than is represented by the increase in debt and currency generated to foster this economic growth.

On the other side we have what might be called the British system, the Lombard system. Under this system, the assumption is made that the world must start from the fixed hoard of combined gold and paper money, and what not, in largely private hands. State works, if they are to be fostered by means other than current tax revenue, must be fostered by the sale of public debt to private holders of such hoards of gold and paper money. The government must pay whatever borrowing costs private financial markets demand.

Such are the two opposing systems of currency and credit.

The principle mechanism by which the collapse of the Anglo-American economies and world market have been caused during approximately the past quarter-century, has been the control of the Lombard markets in public and private debt, suppressing radically the remnants of national banking practice and related practices in the economies. The exemplifica-

tions of this error have been IMF conditionalities as applied to entire nations of the world, and otherwise in the United States itself, the so-called Volcker measures. One discussion of the Volcker measures is relevant to our purpose here.

The Volcker measures

During the middle of the 1970s—1975-76 specifically—a task force associated with the U.S. offshoot of Chatham House, the New York Council on Foreign Relations, was commissioned, under the direction of Cyrus Vance et al., to produce a set of papers outlining proposed policies for the 1980s. The study was called the *1980s Project*. It was funded by the Lilley Foundation, and the proceedings were published by McGraw-Hill. This *1980s Project* became the policy of the Carter administration, the latter a Trilateral Commission creation, and were in fact the economic and related policies of the U.S. government in domestic and foreign affairs during the 1980s.

One of the central features of this collection of papers, is one which specifically attacks what is called, by the admirers of Adam Smith, mercantilism; and warns of the danger of the emergence of a neo-mercantilist, i.e., Hamiltonian-Listian policy, especially in the developing nations. What was proposed to prevent the rise of neo-mercantilism, is a tactic named specifically “controlled disintegration” of the economy.

During the spring of 1979, while he was campaigning in Britain for President Carter’s nomination of him as chairman of the Federal Reserve System, Paul Volcker publicly, specifically identified controlled disintegration of the economy, as part of the repertoire he proposed to bring to the U.S. Federal Reserve System and the world economy. What are called the Volcker measures, are those measures which are associated with the words “controlled disintegration” of the economy, set forth in anti-neo-mercantilist remedies, within the Council of Foreign Relations *1980 Project* papers.

What Volcker did essentially, was, first, to deregulate the U.S. banking system, at the same time that interest rates were driven to relatively astronomical or at least usurious levels, in a kind of shock effect echoed recently in the Jeffrey Sachs program in Poland. Interest rates ranging up to 18% per annum were the reality of the early 1980s, representing a cost of money borrowed from the Federal Reserve System, and obviously borrowed from other sources, which was double or triple the prevailing average yield on mortgages, in industry, in agriculture, and so forth.

The effect of this high-interest-rate policy, combined with the shock effects of banking deregulation, was to bring about the collapse of the thrift banking institutions of the United States, such that the savings and loan banking system was in fact already bankrupt from the onset of 1982. Similarly, these usurious interest rates drained money capital out of the money flows through agriculture, industry, and so forth to the effect that these entities resorted to primitive accumulation against

their own stored up fiscal capital and related improvements, as well as their labor forces and so forth, in order to increase sufficiently the margins of debt-service allotments.

The result was rapid de-industrialization and the rapid de-capitalization of agriculture and other things, and acceleration of the rate of depletion of basic economic infrastructure.

As a result, in fact, the United States has been in a process of physical economic decline since no later than 1970. This is particularly the case, and it is obvious that this is the case, if one takes into account the condition and state of basic economic infrastructure: water management, transportation, generation and distribution of power, and so forth, since 1970.

There is a \$3-4 trillion deficit, a built-up repair bill, in the United States in the area of basic infrastructure, built up since 1970. If that deficit is added to the shrinkage or lack of growth in other areas, then it becomes obvious that the United States has been in a generally accelerating rate of physical contraction since approximately 1970, and that this rate of contraction accelerates with the access to the Federal Reserve System of Paul Volcker and his policies of banking deregulation and controlled disintegration of the economy.

The new world order utopians

One must never overestimate the sanity of governments and related leading institutions, especially these days. It ought to be recognized that the greater part of the Western establishment in power, has been operating for a quarter of a century under an increasingly obvious commitment to millennial utopian goals of a character most simply described as “New Age.” These utopian goals are reflected in social-cultural programs, associated with the introduction of the rock-drug-sex counterculture and with the fostering of malthusian goals in the name of ecology (as a substitute for the former emphasis on capital-intensive, energy-intensive investment in increase of the productive powers of labor and the welfare of society per capita through scientific and technological progress). It is also clear that the core of this pro-malthusian Western establishment, includes prominently among its advertised utopian goals, the millennial establishment of what is called sometimes a “new world order,” which is in effect a global pagan Roman empire, ruled in this case not by the Latin-speaking or Italian-speaking Romans, but by the Anglo-Americans.

That is what we see in progress at this moment—the attempt to use the United Nations, and particularly the Security Council, as an agent of Anglo-American utopian dictatorship by whim, over the planet as a whole.

Therefore one must, in these circumstances, where utopian goals, such as those of the Anglo-American neo-malthusians, or the most radical Eretz-Israel Zionists, are operating on the basis of a kind of paranoid-schizophrenic-like reality, make mistakes of attributing their behavior to what we might otherwise consider a rational consideration of relationship to

reality. These utopian forces, as the case of the World Wildlife Fund-World Wide Fund for Nature illustrates, rejoice with glee as they implement pseudo-scientific programs, ostensibly to save the planet's environment, but which actually are destroying the economy and bringing about the greatest imaginable catastrophe, in terms of mass death, famine, epidemic disease, and so forth, on the planet. In a similar way, these forces gloat over the sheer destructive effects of the most radical usurious program of a type variously illustrated by the Volcker measures in the United States, by the IMF and World Bank conditionalities policies, by radically insanely unscientific ecological programs, and by means such as the Jeffrey Sachs shock program.

To these forces who are historically associated with usury as the means of existence over thousands of years to date, the cult-like practice of usury, and the interest in maintaining the supremacy of the usury-based oligarchy over this planet, are the primary goals which act as a substitute for reality, or for what the rest of the human race, the rational majority, would consider normal and sane. For them, usury is not only their way of life, it is also the central part of the armamentarium used to destroy nations, to prevent nations from doing what the United States did over the period from 1776 to Abraham Lincoln's defeat of the British puppet government of the Confederacy.

Similarly, these fellows had never been concerned so much with the military power of Germany in fostering the two world wars of the century, but rather have feared, that the influence of Listerian and related ideas inside Germany, if Germany were joined by France and Russia, among other nations, on the continent of Eurasia, would create a force like in nature what the United States tended to become, strong enough to eradicate the system of usury from this planet forever.

That is the situation today. These utopians see usury and its effects as the key weapon through which to destroy the potential for a Eurasian economic power strong enough to contain, perhaps to overwhelm, the power of the Anglo-American usurers, and thus to prevent the establishment and perpetuation of a global pagan Roman Empire ruled by the Anglo-American oligarchy.

That historical reflection situates, and is perhaps indispensable to assist one in understanding and discussing clearly, the issues of banking and banking debt policy today.

Current banking practices futile

As long as nations believe, under present international monetary conditions, that one must use what are called generally accepted current international banking practices, as the exclusive acceptable mode for financing investment into infrastructure, industry, and agriculture, Eastern Europe and the Soviet Union shall never, within the foreseeable future, achieve the necessary development of infrastructure, agriculture, and industry. And under those conditions, in the present

physical conditions, the worst social and political, as well as economic, results must be expected. Thus, on this issue, there is very little room for compromise.

The fact that the Anglo-American financial system is collapsing, is the opportunity, as well as the time of necessity, for reintroducing what might be called "Hamiltonian methods" of national banking for the purpose of large-scale investment in basic economic infrastructure. To summarize what that implies: Through national credit, we are assigning,

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implicitly, idle labor and idle resources to productive employment, in developing basic economic infrastructure, as well as improvements in agriculture, industry, and small high-technology enterprise. In general, we restrict the use of credit for other purposes, as much as is possible, in order to avoid the possibility that the debt caused by use of other credit might grow as rapidly as the increase of per capita output of physical wealth.

Two considerations are primary, apart from the general emphasis on scientific and technological progress in a capital-intensive, energy-intensive mode.

First of all, we must emphasize the matter of proportionality, that there is a ratio of employment in the respective categories and sub-categories of production, such as infrastructure and its sub-categories, agriculture, manufacturing, and so forth, which in effect represents a balance in the same way that the division of labor in a factory represents a balance or imbalance. A balancing of investments for the optimal effect is of course a priority, as also is the matter of the generation of flows of trade, the circulation through markets, in such a manner to stabilize the growth of the productive tax revenue base and the national credit system itself. This will require international credit, and the strength of international credit will be dependent in the medium to longer term on the success of the national credit system used in the respective countries.