Lessons of the Lautenbach Plan

A Reconstruction Program for Germany In a Time of Global Systemic Crisis

by Helga Zepp-LaRouche

Helga Zepp-LaRouche, Chancellor candidate of Germany's Civil Rights Movement Solidarity party (BüSo), issued this campaign statement in late May. It was published in the weekly Neue Solidarität *(No. 22), and has been translated from the German.*

"Mice are dancing on the table," is an expression that comes to mind upon examining the current situation in Germany. They've really danced up a storm in Berlin. To be precise, the city has thrice the per-capita debt as Argentina, and its municipal functionaries are no longer able to deliver legally mandated social services and obligations; but this isn't stopping them from enjoying themselves as party boys and girls. The problem is not just in Berlin, but in the entirety of Germany, that no one has any concern for the general welfare: not for the creation of jobs; not for small and medium-sized industries and agriculture; not for the education of our youth; not for the health system; nor for maintaining the dignity and welfare of the elderly; not for the national defense—this list could go on and on. What is it that the politicians of the established parties worry about? Their own self-interest.

Yet everyone sees the handwriting on the wall. The dramatic collapse of Deutsche Telekom only reflects the general problem: Germany is confronted with a systemic crisis which has both global-strategic and existential implications. And the crux of the matter hinges precisely on the fact that none of the parties represented in the Bundestag [lower house of parliament] is capable of recognizing the systemic character of the crisis. On the contrary, the dogma that the "free-market forces" will always somehow or other certainly regenerate, is part of the political credo of them all. But, whoever hysterically refuses to recognize the systemic character of the crisis will, of course, not find a solution for it either.

In certain historical situations, the established institutions all too obstinately cling to their ordinary habits of thinking, even when these habits increasingly come into collision with reality. In such cases, the initiative of a new way of looking at the world, a new theoretical grasp of the problem, and a correction of the axiomatic assumptions can only come from outside of the established party landscape. Such an historical situation is what we have today in Germany.

The Causes of the Crisis

We find ourselves today in the concluding phase of a systemic collapse of the world financial system. The ungovernability of Argentina, the banking crisis and depression in Japan, are therefore only mild forbodings of that which is about to threaten the entire world economy in a short time, with the possible exceptions of China and India. There will be many "Enrons" and, with them the *Mittelstand* [Germany's small and medium-sized productive sector], which more than anything is the centerpiece of German industry, threatens to break down. The inevitable collapse of the dollar will bring the entire architecture of the global financial and trade system crashing down.

Exactly as in the 1930s, a dynamic toward world war is threatening to develop out of this crisis. Just as it was at that time, there are forces who think in terms of geopolitical categories and who are attempting to ward off the crisis through re-armament programs. Therefore, it is urgently necessary to point out the present parallels, but also the differences of the situation of 1929-33, and above all to emphasize the profoundly pressing importance of the proposals put forth by the economist and adviser to the national Economics Ministry Dr. Wilhelm Lautenbach, at a secret 1931 conference of the Friedrich List Society.

However, before we turn to the possibilities for solution of the crisis, we must consider its causes, which are not some kind of errors of the last one or two years, but rather the result of a paradigm shift which was been in progress for about the past 35 years.

It began sometime in the middle of the 1960s with the Wilson government in Great Britain and the Johnson Administration in the United States systematically transforming economic policy from a production orientation to a consumer orientation—a change which finally seized hold in continental Europe, too.

Further neo-liberal steps followed, such as the decoupling of the dollar from gold and the introduction of a floating currency exchange rate in 1971; the artificial oil price rise of 1974-75; as well as, between 1977 and 1981, a whole series of measures toward "controlled disintegration of the world economy" under Carter and Brzezinski. As part of this trans-

Helga Zepp-LaRouche (right), Chancellor candidate for the Civil Rights Movement Solidarity party (BüSo): "The BüSo must become a determining agency in shaping German policy, and it must accordingly be elected to the Bundestag, even though this would be a great shift."

formation were comprehensive deregulation measures which radically shifted the character of society on both sides of the Atlantic, from the economic paradigms which had represented the basis for the successful reconstruction of Europe after 1945.

Over a long period of time, these changes undermined the spirit of reconciliation and cooperation among nations, such as, for example, were characteristic of the collaboration in the European Coal and Steel Union of Jean Monnet, or between Konrad Adenauer and Charles de Gaulle. John F. Kennedy's famous Berlin speech was likewise an expression of this friendship between peoples. Shortly after the murder of Kennedy, and above all the "utopian" war of the United States in Indochina, tensions developed in relations between continental Europe and the English-speaking countries, tensions which reached a temporary high-point during the Carter/ Brzezinksi Administration.

Instead of using the golden opportunity of the fall of Communism in Eastern Europe in 1989 for a completely new definition of East-West relations, the earlier Bush Administration saw a chance, in the beginning of the breakup of the Soviet Union, to consolidate the status of the United States as the single remaining superpower, and to build up a new world empire, a trend that would be only temporarily toned down during the intervening Clinton years. The Thatcher-Mitterrand-Bush combination forcefully blocked the reunification of Germany, through imposing the Maastricht Treaty and the introduction of the euro. Since the breakup of the Soviet Union after 1991, the economic situation in Europe greatly worsened, not least through the implementation of the neoliberal "reform policies" in the states of the former Comecon [Soviet-era trade bloc], exactly as in the newly admitted German Federal states.

Avowed Atlanticists in Europe during this period had to go on record and complain about a clear change in transatlantic relations, that many of the younger Senators and Representatives in the U.S. Congress had certainly moved considerably away from the common values that once bound together the Atlantic Alliance. From the European side, the fear increased, the policy of the United States was openly criticized, and there was simultaneously a rejection and resistance against these policies on many points. The unclear circumstances of the most recent election in the United States, and the increasing disregard for human rights since then, have without a doubt heightened these tensions.

As already mentioned, the present sharpening of the global systemic crisis is the result of an "experiment" that has been ongoing for around 35 years. If the governments of the Group of Seven actually declare the trends underlying this experiment to be irreversible, then it will unquestionably lead to a general collapse, and indeed to a further deterioration, just as occurred during the 1929-33 interval.

What will take its toll, is the result of 35 years of preference for speculation to the detriment of production: a society in which all too many people no longer base their identity on their professional performance and the quality of this work—

what they produce—but rather in the unbridled enjoyment of the here and now, in the leisure society. Important areas of basic infrastructure are criminally neglected, from transportation to power generation, and above all in the educational and health systems. Many agricultural enterprises see themselves as done for. Branches of industry that are vitally important are facing destruction, and above all, the *Mittelstand*, the small and medium-sized industrial enterprises, are being mowed down. The psychological effect of all these developments upon a large portion of our youth, who look around and see only an uncertain future for themselves without significant hope, is very grave.

Even if one considers the deficiencies and injustices which certainly existed in the years of rebuilding after the Second World War, and the "economic miracle" years, still this period from 1945 to 1965 was a resounding success, if one compares it to the disaster of the last 35 years.

Lessons of History

In fact, the present situation points to similarities to the one in which Dr. Lautenbach presented his policy, at his forum of the List Society in 1931.

First of all, however, one potentially positive aspect of the specific strategic situation of Germany in the world today, ought to be emphasized. Germany's success depends upon its ability to export 30-40% of its production to an expanding market—above all in the form of high technology and capital goods—and this has been the case since the end of the 1870s, as a consequence of the industrial promotion policies of Bismarck. The obvious partners for Germany today are above all Russia, China, and India, all of which are the kind of developing markets which are in great need of expanded technology.

Such a role as an "export locomotive" is not just decisive for Germany alone, but is the basis of the intertwining of the German with the continental European economy, even for the other European states. During the last decade, very much of this potential has been destroyed. One only has to think of the many long-standing, traditional firms which no longer exist, not only from the former West Germany, but above all, ironically, even from the new German states. Without a doubt, the best way to stop the collapse of the real economy in Germany continues to be one in which Germany were to place itself at the apex of Europe, within the context of long-term economic development of Central Asia, China, and India.

How is such an export initiative to be brought about? The solution lies completely apart from the austerity policies of Finance Minister Hans Eichel, who, with each new round of budget cuts, destroys more and more industrial capacities and jobs, and thus, each time, the hole in the tax-collection kitty grows larger and larger. It was precisely against such austerity policies of Brüning and von Papen in the 1930s, that Dr. Lautenberg counterposed his plan.

He propounded in principle the same reconstruction program as that with which Franklin D. Roosevelt successfully led the U.S. economy out of the Depression after 1933. Lautenbach turned away from the typical foolishness of monetarist policy, which deems it to be necessary under crisis conditions to balance the budget through cuts in government expenditures. Through such a policy, it ought to be really clear that one saves neither an industrial enterprise nor an economy from bankruptcy, if one drives production so far down, that current costs can no longer be covered. But since the monetarist ideologues only look at things and figure through the lens of a bookkeeper, by being able to cut costs to increase "profit," they are blind to the productive economy as such. Austerity policies in a crisis situation are the medicine that takes away the patient's life.

Precisely because, under the simultaneous conditions of depression and world financial crisis, purchasing power collapses and the ordinary market mechanisms no longer work, Dr. Lautenbach argued that the exact opposite were required. That likewise today the market mechanisms are no longer functioning, one could already see in 2001, when even the lowering of interest rates 11 times in the United States didn't even have the slightest positive effect on the real economy. Overcoming the depression, per Dr. Lautenbach, were only possible if the state were to provide stimulus financing to those areas of the economy which one would also invest in if the economy were going well, and through which genuine capital formation results. The obvious area for such state credits is the reactivation of unemployed labor power and idled industrial capacities for the construction of economic infrastructure, which then represents the engine for a general economic expansion and a surge of productivity.

Since each increase in the per-capita productivity of labor power depends upon the application of scientific and technological progress in capital-intensive investments, it is obvious where the pathway out of the economic crisis for Germany and Europe has to be.

The BüSo's Vision

Thus, since the fall of the [Berlin] Wall in 1989, and with greater intensity since the 1991 collapse of the Soviet Union, I have propounded a twofold reconstruction program for continental Europe and its partners in East, Central, and South Asia: the program of the Paris-Berlin-Vienna Productive Triangle and the Eurasian Land-Bridge.

First, we will need a general reorganization of the present world financial system, a New Bretton Woods that corrects all of the errors of the last 35 years, such as the introduction of floating exchange rates; this necessitates also cancelling the majority of the debt, or transforming it into long-term credits at low interest, and cancelling derivatives contracts without compensation.

Second, we must unlock the economic potential of Eurasia through a coherent system of so-called "development corridors." These involve the construction of integrated high-speed railways and highways, and the waterways growing from these traffic arteries, as well as energy production and distribution, communications, and water-supply projects that create the preconditions for the establishment of agriculture, industry, and new cities. Through these corridors, the previously land-locked areas of Eurasia will be able to obtain the same advantages of location as have areas with access to the sea and to rivers.

Contrary to those conditions found under colonialism, these transport routes are not for the purpose of facilitating the export of these countries' raw materials, but rather they are intended to create the preconditions for uplifting the productivity at the frontier, in order to raise local living standards and purchasing power. In the face of the enormous expanses and the great population of the Eurasian continent, this means that a great demand for importing advanced technologies will continue to be felt there for quite a long time to come.

Provided that we in Germany and Europe want to achieve productive full employment again—and this alone signifies for us the creation of around 8 million new jobs—we must create long-term, cheap credits for exports into the Eurasian countries that have urgently called for our technological assistance. If this policy is projected for at least two decades, then we would turn back to those healthy economic strategies which were the basis for the reconstruction of Europe after 1945.

China is obviously the greatest expanding market for our exports, though India represents a similar potential. If one merely pictures within one's mind the vast scale of Eurasia and the various climatic conditions, such as the Russian North—a region of immense potential wealth—then it becomes clear that the task of the century ahead, Eurasia's development, can only be accomplished if the scientific potential of Russia, Ukraine, and East Europe are universally mobilized.

The realization of the Eurasian Land-Bridge is a vision, granted. Without a vision, however, we will not get out of this crisis, for the pragmatism of the established parties has brought us directly into the plight that we are now in. If Jean Monnet were still alive today, he would be the first to mobilize for this perspective.

The economic development of Eurasia, which at the same time represents an actual policy of peace, naturally means that the federal government's policies must change. The BüSo must therefore become a determining agency in shaping German policy, and it must accordingly be elected to the Bundestag, even though this would be a great shift. Therefore, I entreat your support and active collaboration.

It may be argued that, within the present-day reality of Germany, this is not possible, that the leap is too big, the obstacles too many, the proposed measures too drastic. To this I can only answer that a sudden drastic collapse of the economy and the social conditions of society is unavoidable if the current policies are continued. Without drastic measures which lead us back toward the social paradigms of the period from 1945 to 1965, Argentine conditions were a mild description of that which awaits us.

Documentation

The Lautenbach Plan

Had the policies of economist Dr. Wilhelm Lautenbach been implemented in Weimar Germany, the economic crisis would have been overcome, and Adolf Hitler would never have risen to power. But Anglo-American financier backing for Hitler and Hjalmar Schacht blocked the realization of Lautenbach's program.

Lautenbach (1891-1948) was a high-level official in the Reich Economics Ministry, and a member of the Friedrich List Society. List (1789-1846), a German-American, was a theoretician of the American System of political-economy, whose work has been nearly erased from history by the British free-trade zealots who support List's arch-enemy, Adam Smith. It is only the work of the LaRouche movement internationally, that has restored him to his deserved place in history.

The following discussion of Lautenbach's plan is abridged from a speech by EIR *European Executive Director Michael Liebig, to a conference of the Schiller Institute in Reston, Virginia, on Feb. 14, 1999. The full text of the speech, which was titled "Von Schleicher, the Schröder-Schacht Plot, and Hitler's 'Legal Coup,' " was in* EIR, *March 5, 1999.*

On Sept. 16-17, 1931, a secret conference was held of the Friedrich List Society in Berlin. The theme of the conference was the possibility and consequences of expanding the issue of credit, in order to boost German economic activity under conditions of the world economic crisis. In addition to Reichsbank President Dr. Hans Luther, some 30 leading economists, bankers, industrialists, and economic politicians participated. The keynote speech was delivered by Dr. Wilhelm Lautenbach. . . . His memorandum was titled "The Possibilities of Boosting Economic Activity by Means of Investments and Expansion of Credit." He wrote there, "The natural course for overcoming an economic and financial emergency" is "not to limit economic activity, but to increase it.". . .

With respect to an economic emergency characterized by depression and/or the collapse of the financial system, he called it a "paradoxical condition," since "despite curtailed production, demand is less than supply and thus leads to the tendency to decrease production further." Under conditions of depression, there are normally two economic policy reactions. The first is a policy of deflation: The budget deficit is reduced by cutting state expenditures, and prices and wages are lowered. At the same time, credit is restricted. If credits are not curtailed, low interest rates would lead to an outflow of foreign capital, which endangers the exchange rate and produces still greater scarcity of available capital for the domestic economy. Lautenbach thought it was practically impossible to reduce taxes in a depression, because the tax base had already contracted and public budgets were already strained for resources. All of these measures, according to Lautenbach, produce "new and large losses of capital for the individual entrepreneur in commerce and industry," making them "uncompetitive and insolvent," compelling a "reduction of production and large-scale layoffs of the workforce," and also leading to "a deterioration of the status of the banks."

The reduction of public expenditures is doubly counterproductive, since public contracts and mass purchasing power are further reduced. The reduction of wages has an initially favorable effect upon exports, but it causes a far greater reduction in demand in the domestic economy. "The adjustment to reduced demand by correspondingly reducing prices causes losses . . . and draws additional reductions of production in its wake." The thus additionally growing unemployment, effects an acceleration of the downward spiral of the economy. Thus, Lautenbach argued, the deflationary policy will "inevitably lead to complete economic and political catastrophe." But, in a depression, there are "surpluses of commodities, unused production capacities, and unemployed labor." The use of this "largely unused latitude for production" is "the actual and most urgent task of economic policy and it is simple to solve, in principle." The state must "produce a new national economic demand," which, however—and this is the condition—"represents a national investment for the economy. One should think of tasks like . . . public or publicly supported works which signify a value-increase for the economy and would have to be done under normal conditions in any case."

Then Lautenbach poses the question: "Since long-term capital is neither available to us on the foreign, nor on the domestic market, how are such projects to be financed?" And he adds, that "reasonable public works are already neglected due to the empty treasury in times of deep depression." If there is no possibility to finance the projects through the (empty) state treasury, or through the capital markets, "the consequence to be drawn, ought not to be, that it is not possible to realize projects of this sort."

But how is it possible? Lautenbach makes the initial observation, that "liquidity is chiefly a technical organizational issue. Banks are liquid when they are sufficiently supported by the Reichsbank." Lautenbach proposes that the Reichsbank give the banks a "rediscount guarantee" for the bonds for financing "economically reasonable and necessary projects." Once a firm had a contract from a state agency for the realization of a project, it would get a credit line from its bank, to pay for newly employed workers. While first using existing machinery and inventories, the firm soon would also buy new and additional raw materials, and also capital goods. As the project's realization progresses, the state agency will issue promissory notes to the contracting firm, for which the firm will get cash from its bank. The bank, in turn, will receive cash from the central bank, due to the rediscount guarantee. The central bank will prolong the promissory notes, until the general economic recovery has sufficiently improved tax revenues, so that the state can redeem the notes.

Short-term credit financing, by means of discountable, prolongable bonds for creating jobs and investments, has a direct and an indirect effect. The realization of the projects, financed by credits, signified an increase of production, with the productive utilization of machines, raw materials, and operating materials. The financial situation of the businesses would relax, and thus also, the situation of their banks, and the demand for capital goods would increase. The realization of the projects on credit, would entail payment of wages to newly engaged labor, which would have the effect of generating additional demand for consumption goods.

Lautenbach proceeded on the assumption, that "the stimulating effect of the primary credit expansion" for financing infrastructure projects, would effect "a stimulating movement in total production" in the economy. The initial boost of infrastructure and investment projects would lead to the "upward conjuncture" of the entire economy. The utilization of unused capacities of production would have the effect of increasing economic productivity. The improvement of tax revenue would enable the state to shift to a long-term management of the original liquidity provided to pre-finance the projects. . . .

In summary, Lautenbach says, "By means of such an investment and credit policy, the disproportion of supply and demand on the domestic market will be alleviated and thus total production once more provided with a direction and a goal. If we neglect to undertake such a policy, we will inevitably be heading in the direction of continuing economic disintegration, and a complete disruption of our national economy, into a condition in which, then, in order to avoid domestic political catastrophe, one will be compelled to undertake a strong increase of new short-term public debt for purely consumptive purposes, while today we have the instruments, by means of utilizing this credit for productive tasks, to bring both our economy and our public finances into balance once more."