

induced the son, Arnie, to think in Nazi terms specifically, is not certain. He certainly impressed a character upon the son, which conforms to the Nazi model. This fellow was brought into the United States, given citizenship, and groomed to play a political role, the same way that Hitler was groomed by certain people in Germany to become a political figure. They gave him certain films to perform in, of which the “Terminator” series is typical: These films capitalized upon certain morally degenerate features of Arnie’s character. And also, groomed him for a political role like that you see in the Terminator! What they’re doing, is introducing a Beast-man type into this California case, and trying to use this success of Arnie in California, to shape the politics of the Republican Party for the coming year’s election.

### Fighting Shultz’s California Beast-Man

I recognized the danger. So, my campaign, which is actually second in terms of popularity in the United States, intervened as soon as this Recall election was put into process, to try to stop the thing. We came close to success: When we moved into the case, the election of Schwarzenegger was a foregone conclusion. We temporarily stopped the chances of a Schwarzenegger victory. And young fellows, like Quincy here, were part of that process. We deployed effectively, in things that surprised these fellows into turning the situation around.

At a certain point, former President Clinton was moving toward supporting my efforts. Then—I think under his wife’s influence—he backed down. But, that’s a story in itself I won’t go into. But then, at a certain point, other things happened, and Clinton backed down, and every other part of the Democratic Party leadership and every other candidate, either did not intervene—in this crucial election for the Presidential campaign for next year—or they went over to the wrong side. Now all of my rivals for the Presidential nomination, including the party leadership, are now discredited. Everybody in the United States is politically informed; leading circles in Europe, who are better informed, are also realizing that Arnie Schwarzenegger *has to be stopped*. Some people are influenced by misleading press that Schwarzenegger is a popular man. He’s not a popular man: He’s a Beast-man! And any sympathy toward him, from Europe or elsewhere, for his election is a *terrible* mistake for those who showed that sympathy.

And, since this is a sequential translation, I will bring this to a close at this point, because I’m sure there are many ideas and questions that you have to raise.

I will say: The situation is not bad, because we’re fighting. But as in fighting a war, when you have to fight a war—of any kind—on this scale, it’s always dangerous; and nothing is certain, but you try to win. In this case, we have the possibility of winning, but no guarantee. And, I’m relying upon our good Italian politicians to help the process. We must think internationally; we must cooperate; we must build a mood in the world, an optimistic mood, for positive measures to put this thing behind us. I think we’ll win—but I can’t guarantee it.

## To Vicenza Businessmen: Start by Ignoring Money

*Lyndon LaRouche spoke to a meeting of the ISIES, a think-tank of the Chamber of Commerce in Vicenza, Italy, on Oct. 11.*

What I shall present, in sequential translation, is a subject, which is—briefly—a subject of some importance to this region, in particular, of Italy, in what I foresee as a coming period of world history. And, I want to emphasize the importance of the future role, of the entrepreneurships of agriculture and industry in Northern Italy, as a leading factor in a world opportunity which is emerging now. I shall focus on a particular aspect of this matter, which is little understood, but I think important to be put on the record.

It is a fact of the matter, which is quite relevant for this time, that sometimes men’s greatest accomplishments come after a catastrophe. People become comfortable with making mistakes, habitual mistakes over a long period of time, a generation or two. They call these mistakes “our culture,” “our way of life.” “We refuse to consider any change.”

Then, the catastrophe descends. And finally, people awaken to the fact that they are people, and they must discover solutions for this catastrophe. Thus, for example, the greatest period of modern history began in Italy in the 15th Century, after a 14th-Century catastrophe.

Now, briefly, the catastrophe is this: In the post-war period—World War II post-war period—there was a great process of reconstruction, which benefitted Europe, among others. There were many bad features of this reconstruction, but overall, from the standpoint of economics, it worked. Then, suddenly, after the Missile Crisis of 1962, the Kennedy assassination, and the launching of the Indochina War, things began to go bad. The effect of these terrifying events—of several days of fear that civilization would be wiped out by nuclear warfare; the Kennedy assassination, unsolved murder of a beloved President; and the Indochina War—terrified a generation then approaching or entering adulthood. And, among part of the generation then entering university age, there was a reaction: a reaction against the technological, producer-oriented society which had existed up to that time. We had the emergence of a so-called “post-industrial,” or “consumer society,” or “pleasure society,” which dominates us up to this time, in Europe and in the Americas.

And the culture has been destroyed. For example, this is what the “Triple Curve” represents, that I have here [see Figures on p. 23]. This is just a pedagogical approximation of what actually happened, and it’s simpler, sometimes, to use a pedagogical explanation than the actual figures.

Now, if we measure an economy properly, we start by

ignoring money. We're now in a period, in which the insanity takes the form of the assumption, that financial advice or accounting reports, reflect the reality of an economy. And people have been convinced, especially in Europe and North America, that if they have money, they're better off—when in fact, they are not, generally. For example, in the matter, of public sanitation, and its effect on health and life expectancy, we are worse off than we were years ago. We have vast unemployment, a fall in the standard of living, a collapse of our basic economic infrastructure . . . but some people believe, "This is prosperity."

## The Process-Sheet of Real Production

So, what we have to do is, forget money, for a moment. But look at money, but forget the way it plays a part in most press coverage of economy today. Now, this refers to the United States, and Britain, from about 1966, but similar effects hit Europe, at the end of the 1960s, and especially took off after 1971-72, and became rather disastrous in Italy from 1976 on, with the IMF conditionalities.

So, what happened in effect, we measure in the following way, we see the following results: The proper measurement of economic performance is *physical, not monetary, not financial*. In other words, the judgment of our financial systems, the judgment of the accuracy of our accounting systems, should be based on proof, that these systems have some correspondence to physical reality.

Now, look at it from the standpoint of the typical successful entrepreneur, who employs, say, 50-250 people. What is the first thing that he has to deal with? The first thing he has to deal with, is the standard of living of the families of his employees. That's not only wages for him, personally, but he has to support a family. Now, what are the conditions of life we must provide for that family? Bill of consumption of goods and services, and the conditions of life that go with that. That's a primary cost of that employer, that entrepreneur.

Now, he's producing a product, and he's looking at two things which are also primarily physical. If he follows good management policy, he has process-sheets; that is, analysis of the process of production in his firm—what he requires, what must be done, what are the actions he performs. And these activities have a physical cost. They have the cost of labor, the time of labor; materials, supplies, wear and tear on machinery, and so forth. And he fills that out, or has his industrial engineer fill that sheet out, called his "process-sheet." Then, he has a list of materials that he buys, materials and supplies, as such; or services, from outside enterprises. Now, at the same time, he has a list of the capital assets, which are relevant to production, or similar essential functions. We can put a price on these things: He has a price on each of these physical things, that he has on his process-sheets, his capital-sheet, and his bill of materials.

So, for a first approximation, of what an economy looks like, we look at these things: We look at a price-out value for essential consumption of households, and for the process-

sheets, bill of materials, and capital investments required by the producing firm. This gives us a way of evaluating money from one period to another. So then, look at this Triple Curve from that standpoint, from about 1966 in the United States and United Kingdom. Over that period, up to the present, the per-capita physical content of money has declined. In other words, money has become less valuable; it buys less. But, at the same time, we've had a great increase in so-called "financial assets," increasingly through speculation. In other words, profits, or nominal profits, earned on stock markets, for example, become a yield, and by the price/earnings multiplier, this yield is converted into an estimated value of financial assets.

That has accelerated, and around the world, since the '70s, it has accelerated generally. So, from the standpoint of financial assets, the value of financial assets in physical terms, has been declining. To maintain these financial markets and their growth, governments have poured in large amounts of monetary assets, to feed the market.

This system began to disintegrate in 1997-1998: The first was called "the Asia crisis." The second, was the Russian bond crisis of the Summer and early Fall of 1998. At the October 1998 monetary conference in Washington, or series of conferences, decisions were made. The decision was made, to try to defend the world system, against a Brazil crisis in February of 1999, by something proposed by George Soros, called the "wall of money." What was done, is various institutions—public and private—worked together to flood the world market with monetary aggregate, to try to pump up the financial markets. As a result, what happened, in the United States in particular, in the Spring of 1999 through the Spring of 2000—the amount of money being printed, both by banks and by electronic means, to pump up the financial markets, was growing faster than the financial markets.

So, as a result of that, since the Spring of 2000, coming out of the United States and United Kingdom, the world in general has been in a terminal phase of disintegration of the existing financial-monetary system. Very soon, in some way, we're either going to change the system, or the system is going to change us.

Now, there is a great opportunity occurring at the same time, that this terrible crisis is occurring. You have some of the documentation listed in this accompanying material here; I won't put it on [display], but you can look at it yourselves. The world's greatest opportunity, at the moment, lies in East, Southeast, and South Asia: the greatest population centers of the world. This opportunity is led, presently, by China, but it's also echoed by India. The largest markets for Europe at this time, for example, are in China and India. The only growing market for Germany, of any significance, is China. And, Italy, in certain degrees, participating in some of the benefits of this growth.

See, China has a great problem. China has its population concentrated upon a coastal area. China has been growing, by selling its cheap labor, on the world market, largely to the United States and others. But using up cheap labor, is like burning population: You're not producing an economically



*Lyndon LaRouche visiting Vicenza in the industrial center of Italy's North: speaking to the Chamber of Commerce (left; 86,000 entrepreneurs are members, 10% of the region's population), and touring an advanced facility for "aeroponic" production of fruits and vegetables (right).*

healthy population. China can go through that, because China has a very large population. So, China's attitude of "we're burning up population with cheap labor" is "that's all right, we'll make more Chinese!" But, that's not going to continue that way. A collapse of the U.S. economy, which is expected soon, would be a 50% collapse, approximately, in the present exports of China to the United States.

But, there's another, more positive tendency in China: a long-term tendency, which is to move the population centers of China—the center of gravity of population—inland, away from the coast. This means transforming the inland land-area, including desert areas. This can only be done, as China has decided, through some of the greatest infrastructure projects existing on the planet. You have: In addition to the Three Gorges Dam, you have other major water projects, such as bringing water to the Yellow River area. What this has opened up, is a market of transport of goods, from Europe, by way of high-speed transport, across Russia and Kazakstan, into China, in two directions: one, by the northern Siberian route; the other, by what is called the old Silk Road route.

Now, to make this work, you have to have some of the greatest infrastructure projects the world has ever seen. Three primary areas of infrastructure are most notable: Large-scale water reorganization. This means moving water from the Ob River, or part of it, down into Central Asia; and so forth. This means a massive transportation development project, largely *rail* or magnetic levitation. This means major projects in generation and distribution of power. This would largely involve nuclear power, and will mean, in the near term, an emphasis upon high-temperature gas-cooled reactors. This would mean the building, for example, of a very large rail network, of high complexity, inside China, already in progress. In other words, there's a plan essentially for 25 years, to transform the interior of China, in terms of infrastructure, to move the population of China, gradually, inland. To move the populations into new city-complexes inland, to upgrade that population by bringing in new technologies and new industries. Already for Italy, for example, for entrepreneurs, this is a very significant part of

the opportunity.

In order to do this, we must have a new monetary system—take that for granted. I've spoken on this before. We know how to do it. But, what it requires, is a change in our way of thinking, as in Italy itself.

Take this area of Italy; look at the entrepreneurships and the agriculture. What you must do, in a sense, is increase the productive powers of labor here, largely looking at the opportunities being generated by the Eurasia market. That means, you must increase capital intensity. You must raise the productive powers of labor, through infrastructure, which improves the performance of industries, by improving the infrastructure in which the industries exist. It means an emphasis on science, because you must keep ahead of the rest of the world, in terms of the science curve. You must increase, also, the capital intensity of investment in industry, in order to absorb science and new technologies.

And what this means, in conclusion: That we have to have a new monetary system, with many similarities to the Bretton Woods system. Governments can do that, if they're desperate enough to do it. And they will be, soon. That means that we must go back to a *regulated* system, in which we protect the prices of goods, in such a way to allow the entrepreneur to invest in capital, without fear that his capital will be wiped out, by a dumping policy of dumping goods at cheap prices on the world market.

So, we have to pose to ourselves some questions, which have been forgotten for the better part of a generation. I'm optimistic, in the sense, that sometimes, the best way to give somebody an uplifting experience, is a kick a pants. We're about to receive that kick!

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## How an Economy Is Run

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**Q:** Can you go into more details and specify what are the complete issues in economics?

**LaRouche:** Very few people today understand econom-

ics, at all, in any practical sense. We should take all monetary theory, papers, and ideas—*bury them!* Look at an economy in a physical way. By physical way, I mean, if you are running a firm—an actual firm, not as some stockholder, trying to make profit; but trying to run that firm, and make it successful, how do you think? How must you think, to run that firm? If you were a government, who's dealing with this kind of problem, how must you think?

How does an economy actually work—a *physical* economy? Forget the money! A physical economy: You start with physical things. You start with a very simple thing: the physical cost of living of a family. The things that are needed by a family, to sustain a family, of a person who's working in a certain capacity in a firm. You think of all the physical components you have to put into that standard of living, including essential public services—health-care insurance, and so forth. What must you give a family, to live?

Now therefore, you have two things. The first thing, you look at in a firm: You have your materials, which is your supply, and you have your process-sheet, the process of production in which people are engaged. These are physical things. Now you think about your supplier, as a firm. You think about how *he* functions. You have to understand *his* firm, as you understand your own. You have to understand *his* problems, because you have to *rely* upon him, therefore, you have to know, in what degree is he reliable.

Now then, you go on to other things. You now say, what affects productivity? Productivity ultimately comes from science. It is the mastery and application of new physical principles, which enables man to increase his power in nature. So therefore, you have to promote science, to give you technologies. You invest in the technologies, in the form of capital, such as machine tools and things like that; new kinds of materials.

Now that means that your firm not merely has the current costs of operation, but you have a capital factor. You have a medium- to long-term investment, in technology, in the form of capital. And you also have to have a factor of improvement, which is going to improve the performance in capital, over the coming period. That improvement factor, you can call “profit.” Now, this gives you an idea, these costs that I just listed, give you an idea of what the price is, because to stay in business, you must meet those costs. Otherwise, you're going to collapse.

## Regulation of Currency and Prices

All right. Now, what affects the productivity, in the same sense, of a whole economy? We have to think in terms of productivity, per capita and per square kilometer. Now, what affects productivity per capita and per square kilometer? Assuming all the firms were at a certain level of productivity, what would determine the relative level of productivity in the economy as a whole? Infrastructure; transportation; production and distribution of power; water management; education, and so forth. So, these factors determine how efficient the individual parts of the economy are. How much do traffic

jams cost the daily economy? How much time is lost?

So therefore, the infrastructure determines your productivity. A modern economy requires at least 50% of its total expenditure must be for infrastructure. And, as you improve the application of science, improve technology, and *increase* the capital factors, your productivity will increase, per capita and per square kilometer. Now you know what the prices have to be—not necessarily in currency, but in terms of ratios.

Now, what do you want? You issue a currency, by a government. You issue this as credit. When you have a proper system, like the American system used to be, independent central banks don't exist in good government. Private banks exist, but not independent central banks. All kinds of private banks exist. For example, credit unions are like a bank; other things are like a bank; then you have other kinds of banks, which function as regular banks—full-service or specialized banks. You can even have, within sections of a country, a regional bank run by the local government. But the key thing is the National Bank.

What the government does, the government exerts a control over money, as in the U.S. Constitution: Only the Federal, national government can issue currency. Now, the currency of the Federal government is a debt, it's a national debt. The debt is deposited in a National Bank. The National Bank then issues loans to reinforce the savings system in the private-sector banks. The function of the National Bank is to ensure that a flow of national credit, in the form of either currency or commitment to print currency, is in order, to have enough money in the system to finance large-scale infrastructure projects, other capital formation, and to put in a factor of growth.

But, the Federal government, through National Banking, has to do something else: It has to engage in laws, through the way it taxes and other things, to *ensure* that the prices of essential industries—the prices of their goods—do not fall below the level at which capital, in those areas, is destroyed. I'll give you a very concrete example for Italy, right now: Italy has a commercial relationship with China. However, China's cheap labor tends to dump products on the Italian market, which will crush the existence of existing Italian producers. Why? Because the World Trade Organization (WTO) system results in a crushing and destruction of capital in countries, through lowering the price of goods, below the level at which these companies can compete and maintain their capital.

Now, you've got two problems here: The Chinese aren't getting enough money for what they produce, because they're using up a large part of their labor force, with cheap labor. They're using them up, like burning paper. If we try to compete with that in Italy, we destroy our own economy. Therefore, we should wish the Chinese well, but we have to protect our industries, because, it's not good for them, in the long run, for Italy to die.

## The Factor of Long-Term Capital

But, they don't understand economics! That's the problem. But, what we have to do, is, *we* have to understand eco-

nomics first. We have to understand capital factors. See, the consumer society does not understand capital factors. The consumer society mentality is, “How cheaply can I get what I want to eat now?” Which is stupid! Because if we’re going to increase the standard of living of the people of Italy, we have to increase the capital factors. You’ve got to put enough capital into the system to make the Casa di Mezzogiorno work. Otherwise, you’re going to have a sinkhole of poverty in the Mezzogiorno. If you crush people, crush the areas in which they live, don’t develop the areas in which they live, you are buying a crisis for the future.

See, our concern has to be, the small producer—particularly the small farmer, the small businessman—does not have the political power to protect himself, on these issues. A good, healthy economy does not want too much domination by large stock operations. See, because the stockholder often just wants a profit on his stockhold—he doesn’t care what happens to the company! You want the true entrepreneur, who is trying to perform. And you must structure the society so that the true entrepreneur is protected against the stockholding company. Which means, the government must understand capital factors.

Capital factors are 25 and 50 years. If you have a baby today, and if the baby grows up under a good educational system, with good opportunities, what will be the age at which that baby has grown to the point of becoming a professional in society, today? Twenty-five years. What is the average length of life, of capital factors, in a large-scale—say, power-producing and distribution network? It’s also about a quarter-century. The capital cycle is about—we run in plus-or-minus one generation. National systems, like national water systems, will run two generations: 50 years. Machine-tool improvements of any significance may run 5 to 15 years.

So therefore, we have to think, if we’re going to run a society, and we’re raising children, we have to think one and two generations ahead. You can’t plan the way the Soviet system tried to plan. What you have to plan on, is creating the conditions, under which people will succeed. And, what we did—in the big change, over the past 40 years—is we went entirely away from the idea of the producer-oriented society, into the consumer-oriented society, especially in America and in Europe. We became like Rome after the Second Punic War: Steal from the rest of the world, and get pleasure today; provide people with bread and circuses.

What we have to do, is make a country strong. We have to make *all* countries strong, by an understanding of particularly economic factors, such as capital factors. We must do what we did, in approximation, in the post-war period: We need a system of fixed exchange rates; we need a gold-reserve-backed system, in order to control fixed exchange rates; we need a system of tariff and trade regulations; we need fair trade policies, which protect capital factors in small business; and we must concentrate on increasing the capital ratios in economy; and we must have a science-driver orientation; and we must have a policy of adding new technologies, which are capitalized to existing technologies, which are capitalized.

For example, if you have a technological cycle where, every five years, you’re making significant technological improvement in production; and you have capital investments which have a 25-year cycle—machine-tool and other capital investments, whatever; 10- to 15-year cycle—how does the economy work? You’re *adding* new technologies to the economy. You’re still using the old technologies, in the 15-year cycle, or the 25-year cycle, but by adding the new technologies, you’re increasing the technology of them all, combined. That means, you’ll need an educational system, that matches that! You have to have an educational system, which is upgrading the population constantly.

## The Economy for Your Grandchildren

Look, we *did* these things, as reconstruction, in the post-war period. It wasn’t perfect, by any means. But, that was the *direction* we were going at. And, that’s what we’ve lost.

So, it’s not something brand new. It’s simply a fresh understanding of what we knew, or had learned how to do, in previous times. The job is to lay this thing out, as I’ve made it very summarily here—it’s a much more detailed case, as you can imagine!—but to lay this out, in ways so people begin to understand what we’re talking about, about what economic policies should be! What’s your grandchild going to look like, coming out of university, 50 years from now? That’s the way you have to think! That’s the way a healthy society thinks! You think of what your ancestors did for you; you think what you’re going to do for your grandchildren.

That’s what built the United States: People came from Italy, for example, in great numbers, in the second part of the 19th Century. They came in poor. They came largely from the Mezzogiorno—

**Q:** Also from this region.

**LaRouche:** Yes, right. They came in poor. They worked hard. Their children often did better. Their grandchildren became leading professionals in the United States, today. And this was the way in which the best part of the United States functioned, as a melting-pot society, in which people thought of the United States as a place of opportunity. And this was our source of strength. And, it’s the only way to run a society. It’s the only Christian way to run a society, certainly!

If you believe in immortality, then, what are you living for? Except to fulfill a mission. What are you doing for the future? What are you doing to remedy the injustices that were imposed upon the past? You don’t need just a practical sense, of what an economy requires: You need a *passion to do good*. And, you also need the knowledge of how to do that good.

The problem today is, generally, society does not have that passion. They say, “How can I get rich?” Not, “How can I do, what will fulfill my life?” Us older fellows are a little bit wiser than that. I don’t have any plans for 50 years from now! Not for me! I have plans for people who are living today, and young—but, not for me. And, that’s what I live for; I think that’s what every wise person lives for. So, I’ll do everything I can, in that direction, to make this clear to people.