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## III. The Pregnant Moment

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April 22, 2001

LAROCHE IN 2004: A DRAFT POLICY

# Launch a Sudden Recovery

by Lyndon H. LaRouche, Jr.

Early this past week, I warned against yet another lunatic act of Nietzschean desperation by U.S. Federal Reserve Chairman Alan Greenspan. This time, I presented, in summary, my own three-point policy for halting the world's presently accelerating economic collapse, and for launching a durable process of general economic recovery.

Those proposals were:

1. Increase the general interest-rates, rather than lowering them.
2. Apply the principles of "Chapter 11" bankruptcy organization, to ensure the continuity of functioning of those public and private institutions which make an essential contribution to the general welfare.
3. Launch a "Franklin Roosevelt" style of economic recovery measures, through regulated flow of newly created credit to relevant public and private enterprises.

I emphasized the relevance of such precedents as both the FDR recovery policies, and those comparable 1931 proposals presented to the Friedrich List Society of Germany by Dr. Lautenbach, which latter, if they had been adopted openly by the German government, could have prevented Adolf Hitler's coming to power.

My own proposal early last week, won approval from some knowledgeable persons, from several nations, who are notable for their superior past performance in both financial and economic analysis and

forecasting; however, they warned that the lunatics presently in charge of international financial policy, were likely to continue with foolish policies, such as Greenspan's, which would accelerate the presently ongoing, global financial catastrophe. I regard those reactions to my proposal, as a fair description of the implications of an increasingly deranged, and desperate state of mind of most leading U.S. and other policy-makers today.

Nonetheless, it was and remains my view, that by putting forth that proposal at that moment, I might contribute to creating the circumstances in which my proposal could win adoption among a significant number of leading and other nations. It is ideas which have been placed on the table at a time when their adoption seemed most unlikely, which are, usually, the indispensable first step toward securing their sometimes early adoption. I explain the deep principle involved in making such preemptive policy-proposals, and, after that, add some vital information on the actual implementation of an economic-recovery proposal such as my own.

### The Principle of the Flank

In virtually all childish games, the play is regulated by a rigged, pre-fixed set of rules. If adults were childish enough to play the game of life by such fixed rules, society would either collapse, as it often does, or the people would break those rules and adopt more appropriate, new ones. Thus, it is often rightly said, that "a done deal" is a "mafia"-style game, which, on past performance, usually puts some of the players early into

the cemetery. All games played by fixed rules, either collapse more or less immediately, or simply slide into their lawful ruin by a corrosive process of attrition.

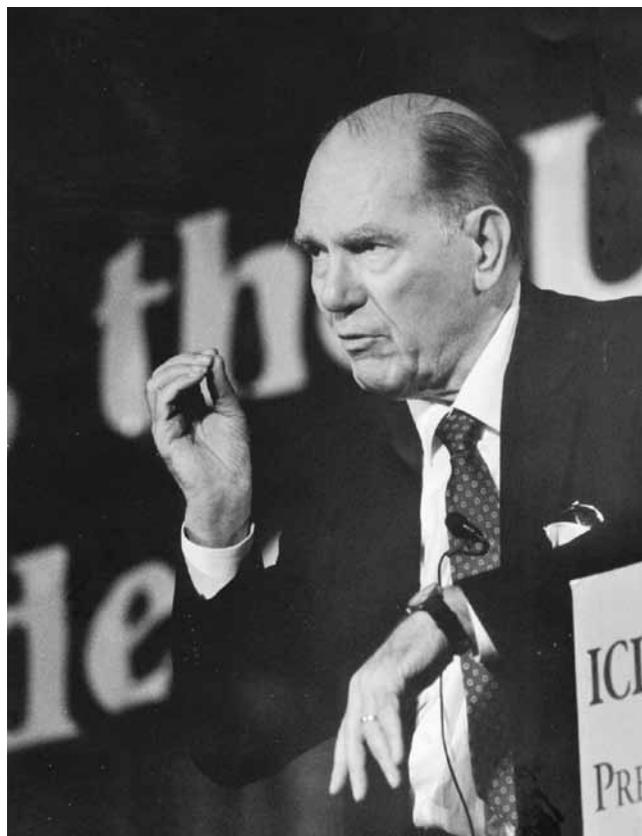
In politics, as in military science, the alternative to doom, is a sudden change in the pre-set rules, which often brings victory to the side which has the good sense to see a reality which exists outside the world as it is seen according to the generally accepted notions of existing rules. The easily recognizable name for such successes in breaking the assumed rules of the game, is called “flanking” the problem. The famous von Schlieffen documented the way in which Frederick the Great of Prussia flanked and whopped, twice in the same day, a superior, highly professional Austrian army, which latter thus suffered the misfortune of playing by a set of pre-fixed “blackboard” rules of the game, at Leuthen.

In the practice of science, the discovery of a universal physical principle, is exactly such a “flanking” action against the stubborn fool who is still playing at the blackboard according to pre-set rules of mathematical physics.

It is also a fundamental general principle of all successful scientific practice, that all great scientific discoveries of principle, occur as a result of the eruption of a crisis in a generally accepted, present way of thinking in terms of some fixed set of rules. My associates and I have repeatedly cited an historically interlinked pair of Classical examples, that of the way in which Kepler discovered a principle of universal gravitation, and that of the way in which Fermat created a revolution in geometry by discovering a principle of quickest time, rather than shortest distance.

Any such crisis in the juxtaposition of fact and belief, takes a form which may be described mathematically, as a fatal error in the equivalent of currently generally accepted mathematical physics at the blackboard. What one’s mathematics at the blackboard says should happen, not only does not happen, but any attempt to describe the contradictory reality by existing mathematical rules leads to a disaster of the type called a fundamental paradox, within the existing practice of science.

The same principle applies, with full force, to generally accepted forms of that mathematics-at-the-blackboard used to describe and defend what is taught as economics in virtually every university classroom and boardroom in the U.S. today. The reason I have been consistently successful, over more than three decades,



EIRNS:Stuart Lewis

*Lyndon H. LaRouche, Jr. “Call it Lyndon’s rule in strategy: When no longer in doubt, flank!”*

in my long-range economic forecasts, whereas all of my opponents in that field have consistently, and now catastrophically failed, is that, as the saying goes, “they were not playing with a full deck.” They were playing according to sets of rules, which, while generally accepted among most influential circles, did not correspond to the real world.

Sooner or later, as has now happened, the fact that my critics “were not playing with a full deck,” has caught up with them. If they are intelligent and sane, they will admit their mistake; if they refuse to admit their mistake, they have no choice but to go utterly mad, as hopeless Federal Reserve Chairman Alan Greenspan has done.

Whether the response is, in one case, a sane one, or, in another, not, nearly everything each has believed about economics, up to now, especially “free trade,” “globalization,” and “new economy,” has been proven, in reality, to have been dangerously absurd.

Now, therefore, how do I react to all those well-meaning people, who advise me to win others to my

point of view “without alienating them by insulting their intelligence,” without pointing out to them the silliness of rules of economics and politics in which they continue to believe? How do I react to those who insist that I should address people “on their own level,” and “in terms they are willing to accept”? What a damned fool I would be, if I did not reject such seemingly friendly advice! If Frederick the Great had accepted such advice, he would have been whopped at Leuthen, instead of the Austrians he defeated.

The key to my outstanding successes as an economist, and as a strategic forecaster, has been, that I do not “play by the rules,” and have not damaged my mind, as so many have done, by thinking “according to the rules.” For anyone who wishes to know, that explains why I have acted, as I did, early this past week, in presenting an absolutely necessary economic-recovery policy, which even those who agree with the policy, think could not be implemented within the foreseeably near future.

Call it Lyndon’s rule in strategy: When no longer in doubt, flank!

The able, but errant Clausewitz, who was not up to the standard of the great Scharnhorst, spoke of the crucial role of decisiveness in warfare. It is a good principle, but not being susceptible to Romanticist influences, I understand it better than the post-Vienna Congress Clausewitz did. If you have a good cause, and can soundly outwit your adversary within the framework of the situation given to you, he is yours. You will defeat him, because your actions will occur in dimensions of physical geometry which he refuses to conceive as actually existing.

### **The Principle of the Economic Flank**

On the world’s stage today, we have two, contrasting views of “doing the unthinkable.” In the one case, we have the conduct of President George Bush, who apparently has mastered the paradoxical feat of choosing the unthinkable unerringly, and repeatedly, without actually thinking. Then, we have my approach, which is to introduce principles of reason which others have refused to think about, until they were slapped in the face with the biggest, presently accelerating financial collapse in world history.

Obviously, the only useful thing to say under such circumstances, is to insist: “There is another way to see this challenge, outside the set of rules you have been misguided into trusting.” In short: flank the prob-

lem! Do not be such a craven and opportunistic lick-spittle, that you refuse to raise the issue of the falseness of those axiomatic beliefs which your conversation-partner has been duped into trusting until now.

Say clearly, calmly, but emphatically and repeatedly: “There is a different way of thinking about economics; let me show you the error which has misled you into the present paradoxical situation.”

The method which must be employed, is exactly that appropriate for discovering and proving the universal principle which solves an otherwise unconquerable paradox in physical science. You, yourself, must, first, undergo that experience of discovery and empirical validation of the needed principle. Then, you must use your own such experience, to provoke and induce the same cognitive process of discovering and validating the needed principle within the mind of another person.

You must act to teach him the Socratic truth-seeking way of Classical humanist methods of education, a way which is lost from virtually all existing classrooms in the Americas and Europe today. (Which is why, not only in former Governor George Bush’s Texas, each generation of students is more ignorant than the previous one, in virtually all U.S.A. and European classrooms today.)

“You think you know something about economics? Let me show you where most of you made your big mistake.”

Think back to Germany in the Fall of 1923, to those legendary days when a wheelbarrow full of 100 billions-marks banknotes could not meet the current price of a loaf of bread! Look at the energy-supplies, and their skyrocketing prices, in the state of California today. When the German government launched the hyperinflation of Summer and Fall of 1923, that government had an excuse for its lunatic monetary policy: they had French-occupation bayonets shoved down their throats. Who is shoving bayonets down the throat of Federal Reserve Chairman Greenspan and those others, who are shrieking demands for stoking up the monetary fires of U.S. hyperinflation today?

With that image in your mind, look at your neighbor, the idiot, who is screaming about “My money! My money! My money!” Look at that idiot in the U.S. Congress, who is glassy-eyed as his voice utters: “The market! It’s the market! How is the market doing at this minute?” What about the quasi-homeless in Califor-



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*Hyperinflation in Weimar Germany during the early 1920s: left, a banker counts the uncountable; right, a housewife lights her stove with worthless currency.*

nia's Silicon Valley, who, until recent months and weeks, were living on "new economy" professionals' incomes, but could not afford to secure a rental or mortgage on even a high-priced tar-paper shack with a Hollywood exterior pasted on.

Like the fellow pushing a wheelbarrow full of paper money, in Autumn 1923 Germany, the simple question, "What can you buy, even if you have all that money?" takes all the magic out of the word "money." Meanwhile, since the high-point of recent market-indexes, the U.S. market has lost an obvious \$5 trillions of "only money" values of "shareholdings," and, counting losses which have yet to be shown on the books, nearer to \$10 trillions, or more. That in an economy whose official annual GDP is estimated in the order of \$11 trillions a year. Except for those who should be swapping their suit-jackets for psychiatric-clinic camisoles, the magic of "The market!" is in the process of evaporating, as gloom takes over, to roam the halls of the Congress where Newton "Robespierre" Gingrich's psychotomimetic ("psychedelic") elation once reigned.

As the psychedelic orgy of "Our Money!" and "The Market!" collapses onto the sidewalk, next to the lawn of the home he once owned, the thoughts of the sobered mind turn to man's physical relationship to nature, the place where real values lie still, when even a currency like the U.S. dollar might be on the verge of going out of existence. How much will CNN and NBC have left

to talk about, when a calm, like a neglected graveyard of lost dreams, settles on those once-so-boisterous stock exchanges? What happens to the current majority of the U.S. Supreme Court, on the day on which Antonin Scalia's Bogomil-like god, called "shareholder value," dies?

The principal lunacy, which has reigned over the U.S.A., its political institutions, and its economy, during the recent thirty-five-odd years, is the assumption that the production of physical

wealth flows from the investment of money. That lunacy is about to be brought low, very low. Instead, we are forced to return to the wisdom of the reality, that it is the productive powers of labor which creates that increase of physical wealth, and related services, for which money is bought and sold.

That long-overdue fundamental shift, back to sanity, in axioms, is the key to the present world situation.

The principle is: If we can make the physical economy grow, and if we keep prices in line with long-term trends in per-capita output, then, with the resources of a sovereign nation-state, we can grow successfully out of any depth of financial collapse. If we reorganize the economy, using a sovereign government's unlimited authority to conduct bankruptcy reorganizations in keeping with our constitutional principle of the general welfare, then, under such use of the "Chapter 11" precedent, we can successfully make our way out of any financial crisis, including the worst financial collapse in world history, occurring right now, today.

Such is the principle of the flank. Excise the false belief which misled the nation into its present folly, and insert the valid principle from which our nation should never have departed, the principle which made Franklin Roosevelt the only truly successful U.S. President since William McKinley was assassinated.

To bring about that change in prevailing beliefs, the American people, at least a great number among them,

must grasp the changes in principle, and see how those principles will work successfully to deal with the crisis at hand. We must spell that out for them. That will take much work on the part of many among us, but, we can, at least, begin now.

### **Let It Be a Successful Bankruptcy**

The fundamental law of the United States' Federal Constitution, reposes in the Preamble, in which the so-called General Welfare clause is, as President Franklin Roosevelt emphasized in opposition to what he called "the American Tories" of his time, preeminent in respect to all economic and related practice.

To this end, we require the conversion of a sufficient portion of heretofore reluctant members of the U.S. Supreme Court, to put the Constitution above the Confederacy's Lockean principle of "shareholder value," to join with the majority of the Congress, and both with the sane members of the Executive branch, to order and support a process of "Chapter 11" mode of bankruptcy reorganization of the political-economy of our nation, and to enter into cooperation according to the same general principle and goals with cooperating other nations.

Without that mobilization of the political will of the U.S., neither this U.S. economy, nor, perhaps, even our republic, can be saved from an early extinction.

There is no middle ground; it is that clear cut, and the relevant decision correspondingly simple. That must be made painfully clear to every adolescent and adult person, whether they wish to face that reality, or not. Their future depends upon it.

The leading measures to be taken fall under six principal sub-headings, as follows.

#### **A. Reorganization of Existing Accounts**

Under no circumstances could all of the existing outstanding debts of the U.S.A. and world financial-monetary system ever be paid. Any attempt to enforce the continued imposition of that debt must necessarily loot the shrinking, remaining infrastructure and productive capacities of the world to the degree, that a general new dark age descends soon upon this planet as a whole. That is the first, hard decision which must be faced.

The greatest portion of that debt, must be written off. However, we must proceed to that result with careful attention to preserving the functioning of essential banking and other institutions, even if they were techni-

cally hopelessly bankrupt. Above all, we must defend the integrity of the U.S. official debt, as Treasury Secretary Alexander Hamilton explained this point; all other debt is negotiable, subject to priorities dictated by the principle of the general welfare, giving priority to essential pensions, health care, and the modest savings of households and essential smaller business and related enterprises.

The action placing relevant entities under protection of a generalized "Chapter 11" bankruptcy reorganization shall be sudden, but, the resolution of the greatest portion of the generally frozen creditors' claims shall be deferred for final resolution to a suitable future time.

#### **B. Forecasting Standards**

In general, for reasons I have given elsewhere, the structuring of the process of reorganization in bankruptcy shall be designed for resolution of most of the outstanding claims over a period of about a quarter-century, or, a period of one basic economic cycle of the physical economy. Since it required thirty-five years to bring the once-prosperous economy to its present state of ruin, those who did so much to ruin it, should not consider their victims unreasonable in demanding that they should be allowed a quarter-century to rebuild it.

During that interval, gradually released and frozen financial accounts held under bankruptcy protection, may be drawn up according to relevant law and procedure to give ordinary citizens, households, and enterprises, the means to conduct their own affairs without excessive red tape.

Also, to the degree this is prudent, the presumption that some portion of assets held in bankruptcy may prove redeemable, it may be arranged that some of that portion, at least, be treated as a non-performing but otherwise durable asset of certain banks and other financial institutions which are deemed essential to the general welfare, and to aid productive enterprises in orderly conduct of their business.

#### **C. Credit-Expansion and Infrastructure**

Under the conditions of bankruptcy reorganization produced by the present world financial collapse, the economic policy of the nation, must be focussed upon the use of regulated issues of public credit for increasing the ration of the total available labor-force employed in either the physical production of agricultural or industrial goods, development and maintenance of

basic economic infrastructure, and essential services of material importance to both those functions and the welfare of the population.

This will not involve dumping monetary aggregate into financial markets, as is being done to hyperinflationary effect by Alan Greenspan, et al. Notably, since the chartered private corporation called the Federal Reserve System is itself bankrupt-in-fact, it must be taken under the protection in receivership of the U.S. Treasury, and its facilities utilized to provide the functions of a national bank, as the first and second national bank of the U.S.A. are a constitutional precedent for this. Although the implicit power of the U.S. Congress to authorize the issue of U.S. currency-notes, is involved in the creation of credit, public credit will flow into the market chiefly as credit to accounts within the banking system, under regulated and controlled conditions, as was done for U.S. defense production during the World War II mobilization.

Initially, the principal source of net growth of employment and physical net output will occur as public credit to development and maintenance of basic economic infrastructure by Federal or state programs, or through regulated public utilities. As much as 60% or more of the initial growth of our presently collapsed national physical economy will occur through those channels.

This will be accompanied by a large shift within the labor-force as a whole, away from financial and related kinds of services, and from relatively unskilled personal services employment, into higher qualities of employment in work related to the process of production of physical goods and essential infrastructure. This credit-catalyzed shift in the structural composition of the employment of the labor-force as a whole, will be among the leading levers in increasing the real average productivity, and net physical standard of living of the labor-force as a whole.

Large, well regulated credit-flows into development and maintenance of basic economic infrastructure, will spill over, increasingly, through contracts, as a stimulant for rebuilding the private productive sector.

#### **D. Credit, Not Currency As Such**

Under such conditions, there must be an immediate and drastic shift from the mentality of policies such as the inherently inflationary Kemp-Roth doctrine, to something akin to a “Kennedy investment tax-credit” policy.

The process of systemic ruin of the once-prosperous U.S. economy of the early 1960s, especially since the catastrophic 1977-1981 Carter Administration’s orgy of deregulation, into the wreckage endured by the relatively impoverished lower eighty percentile of family-income brackets today, demonstrates again, had that lesson been needed, that pouring money into the pockets of both the wealthy and relatively less-unwealthy citizens, is not the way in which to promote actual net growth of the national tax-revenue base.

The way to go, is to maintain high rates of taxation on short- to medium-term financial capital gains, but to give advantageous tax treatment to medium- to long-term investments in the expansion and improvement of technologically progressive production of goods and in services relative to the welfare of the population and the promotion of technological progress in design and production of goods.

Similarly, we must have a relatively higher rate of interest charges on the borrowing of money, except for the protected categories of low-interest credit, and preferential tax treatments for investments and production in the relatively higher national economic and related interest. This serves, in addition to other purposes, to channel investment into medium- to long-term physical gains in productivity, and away from speculation, especially highly-leveraged speculation in the deadly area of short-term financial trading.

The emphasis must be on the theme of “prosperous austerity.” Get by decently in the short term, grow, and prosper in the medium to long term. The notion that today’s working family, shall have the benefit of increased productivity of the economy as their retirement age, and post-fifty health-care requirements increases, approaches, typifies a sound policy. Build a sound foundation, securely accumulated in growth of productivity, and secure financial assets, for a better future.

The image of wheelbarrows of money insufficient to buy a loaf of bread, should warn us that solid banked assets, especially long-term ones, if they are solid, is the place, not money or credit-card accounts, where a sensible nation builds up the bulk of its financial holdings.

#### **E. The Technology Driver**

Sane economists measure productivity in terms of the increase of society’s power, per capita and per

square-kilometer, in and over the universe we inhabit. This includes the improvement of the demographic characteristics of the typical family household.

This relationship of mankind to nature, is unique to the human species; no other species is capable of willfully increasing its potential relative (sustainable) population-density, as expressed in both per-capita and per-square-kilometer ratios. This is the characteristic of the human species which biogeochemist V.I. Vernadsky underlined, in his defining this inhabited planet of ours as a noösphere.

The primary source of this increased power of the human individual, is the discovery and application of valid new universal physical principles, the discoveries on which the development of improved technologies depends absolutely. Therefore, the only mode of actually sustainable economic growth of a society, is what is called a “science-driver” mode. This means, not only corresponding policies of education of the population as a whole, but also emphasis on increasing the rations of the total labor-force employed in fundamental scientific discovery, and in the translation of scientific progress into design, and improved methods of production, of products.

Government credit and taxation policies, must be attuned to emphasis upon that connection to sustainable real growth.

## F. International Cooperation

This means that the U.S. must cooperate with some leading groups of nations abroad, to effect the same general type of reform of relevant international treaty-organizations, as that required for the internal financial crisis of the U.S.A.

We require, urgently, right now, a return to the kind of system of fixed parities and regulation which were employed in the two immediate post-war decades. Since the U.S.A. and a number of other nations, would be sufficient to impose such sudden reforms within an IMF system which is, by its present nature, an implicitly bankrupt institution, such a reform is a feasible one, especially if the U.S.A. were to participate in bringing it about.

As I have emphasized repeatedly in other published locations, the key to a durable U.S. economic recovery, is a durable international economic recovery. The key to the world economy as a whole, lies in the urgency of U.S. cooperation with key nations of Eurasia, for a general Eurasian development, whose benefits would be

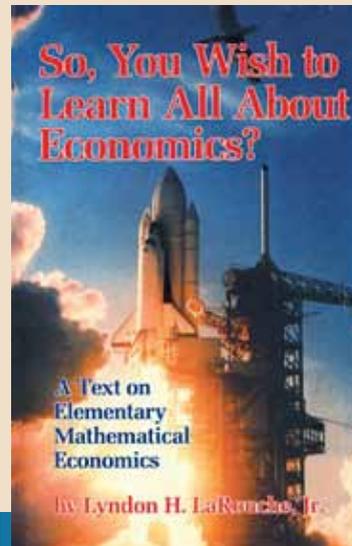
directed into spill-overs into areas such as Africa and Central and South America. This must emphasize the increased output of high-technology exports, especially of a machine-tool quality, to those parts of the world which are relatively deficient in their own present capacity to meet such urgent internal consumption requirements.

This cooperation has several leading impacts for the U.S. economy itself.

First, it raises the priority for expansion of the science-driver potentials of the U.S.A., Europe, and Japan, most notably. In other words, the need for such technology in the world at large, must raise the level of priority for the quantity and rate of such scientific and related investment and employment in the U.S. itself.

In general, international cooperation along such lines, means a base-line for relevant policy-shaping and economic agreements of not less than a generation, approximately a quarter-century.

Say, 2026, by which time we should have put the worst of the present situation behind us, at least if we can now discover the good sense to adopt such a change in our policy.



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