Beyond Marx and Smith: the 'Productive Triangle'

by Gabriele Liebig

At an EIR *seminar in Copenhagen, on June 13, Gabriele Liebig, editor-in-chief of the German weekly* Neue Solidarität, *discussed Lyndon LaRouche's concept of the Productive Triangle of European development, showing how the moves taken so far in this direction by European governments are totally inadequate. Since her talk, this has become increasingly clear in the case of Yugoslavia, where the crisis has reached the threshold of all-out war, due to the lack of a program to solve the economic problems of the region. We publish Mrs. Liebig's presentation here, including some of the graphics she used. For more details on the Berlin conference which she mentions, see* EIR, *April 19, 1991, and our new Special Report, "Can Europe Stop the World Depression?"*

In March of this year, more than 100 economists, government officials, parliamentarians, and business people from East and West Germany, Hungary, Czechoslovakia, Poland, the Baltic states of Lithuania and Latvia, Russia, Armenia, Bulgaria, Croatia, as well as Denmark, Sweden, France, Italy, and the United States gathered in Berlin for a conference on Lyndon LaRouche's proposal for a Paris-Vienna-Berlin "Productive Triangle" of European development.

They passed a resolution which called on all European governments to make the Triangle program the center of their policy and to state their intent to build an all-European modern infrastructure system reaching from the Atlantic into the Soviet Union, and centering around a 12,000 km, high-speed railway system integrating the most modern magnetic levitation (maglev) technology with the more standard ICE or TGV trains. The "Berlin Declaration" also called for a new generation of safe nuclear power plants, massively upgraded R&D and education efforts, and a new, unconventional method of financing those infrastructural projects by state-generated, non-inflationary credits that are granted exclusively for productive investments.

The successful implementation of the "Productive Triangle" approach is called in the Berlin Declaration "the only way to rebuild the economies in eastern Europe and at the same time to pave the way in the Soviet Union for a peaceful transition from totalitarianism to a free society, without triggering civil war." Such "an economic miracle in Europe," the declaration finally states, "is the only lever to pull the world economy out of the depression and to finally realize the development of all peoples, which has been overdue for decades."

In the meantime, several such conferences have taken place in the East—in Gdansk, Budapest, Bratislava, and Prague, and in many cities in east Germany. The Productive Triangle has received press coverage in places as far away as in Brazil and Peru. A German-language book on it is now in its second edition.

There is just one problem: It has not been implemented yet.

Peace through development

The Productive Triangle is more than a list of projects. It is the answer to the three pressing problems the world is facing today:

1) Rebuilding the economies of eastern Europe, which are devastated by several decades of communist command economy.

2) Getting the West out of its economic crisis, which has reached depression proportions in the English-speaking world, while Germany and Japan seem to be exceptions—until now.

3) Reversing the collapse in most of the developing sector, instead of pursuing the presently prevailing course of militarization of the North-South conflict.

Such a policy of "peace through development" is not just a pious slogan coming from Pope Paul VI and John Paul II—most notably in their encyclicals *Populorum Progressio* and *Centesimus Annus*.

It is rather a very practical and very wise policy, and among its protagonists was Gen. Charles de Gaulle. General de Gaulle never gave up hope and efforts to see all Europe one day reunited, and he almost never spoke about the perspective of a united Europe without adding, that the mission of that Europe "from the Atlantic to the Urals" would be to aid the development of the Third World.

In his New Year's speech on Dec. 31, 1963, de Gaulle said: "Without falling for illusions, but also without losing hope that finally the freedom and dignity of man will prevail everywhere, we have to be prepared for the day when maybe in Warsaw, in Prague, in Pankow [East Germany], in Budapest, in Bucharest, in Sofia, in Belgrade, in Tirana, in Moscow the totalitarian regime, which still today can keep down captive nations by force, slowly undergoes a development, which would be compatible with our own process of change. Then perspectives would open themselves to Europe, adequate to her means and capabilities."

The cooperation among Western European nations "will not miss its effect on the peoples beyond the Iron Curtain," de Gaulle said in June 1962. "These peoples deeply wish to one day find the means to live with us. . . . This great Europe from the Atlantic to the Urals, this Europe will then, with the help of the New World, which is her daughter, be able to solve the misery of 2 billion people in the developing countries."

A closer look at each of these three herculean tasks proves that there is no alternative to the implementation of the Productive Triangle, except disaster.

Eastern Europe

The failure of Marx and the communist system in eastern Europe is self-evident. The eastern European economies, in fact, were much more run down than was apparent from the official communist statistics. They simply lied about production volumes and a lot of other things, in order to look better to the West as well as to their masters in Moscow. Also, one has to take into account, that apart from big money theft, the communists planted numerous economic time-bombs that exploded after their demise.

The collapse of trade among the countries of the East bloc's former Council for Mutual Economic Assistance (CMEA) is a case in point. It should and could have foreseen more clearly by the West, but it is also true that Moscow was gloating about the consequences of switching suddenly to world market prices in the trade among the former CMEA countries. The Soviets hope that Poland, Hungary, and Czechoslovakia will crawl back on their knees to them, begging them to buy goods from them in return for oil. In this sense, economic chaos in eastern Europe is in Moscow's interest.

It is, of course, not in the interest of the West.

Therefore, the strange recipes which the International Monetary Fund (IMF) or Harvard's Prof. Jeffrey Sachs are imposing upon Poland through Finance Minister Leszek Balcerowicz and on the Czech and Slovak Federated Republic (C.S.F.R.) through Finance Minister Vaclav Klaus, don't make sense.

In Poland, the results of one year of "shock therapy" are known: Inflation is still at an annual rate of 250%, there were 960,000 unemployed by early 1991, and in the course of the year this number will grow likely to 2 million. Since the end of 1989, real incomes fell 31%, and the average monthly income is about $60. Industrial production has declined by 27% during the same interval.

What is the advice of Mr. Sachs? It is congruent with the conditionalities of the IMF. The main elements of the shock program implemented by Polish Finance Minister Balcerowicz are a 60% devaluation of the zloty vis-à-vis the dollar, a removal of price controls combined with a wage freeze, abolishing protective tariffs (i.e., liberalization of trade), and the illusion that "privatization" is magically able to solve all problems. The most important rule of Jeffrey Sachs is to outlaw any "government intervention," like infrastructure projects.

The same sad story repeats itself in Czechoslovakia under the rule of neo-liberal Finance Minister Vaclav Klaus. He devalued the crown four times. The rate is now 28 crowns to the dollar. What does that mean? A nurse earns 2,000 crowns per month, or $71! An average worker gets 2,400 crowns, or $85 per month. The prices have been deregulated and went up dramatically, but any foreigner with dollars or deutschemarks can buy up Czechoslovakian goods, factories, land, and labor power for next to nothing. At the same time, the C.S.F.R. cannot afford to buy anything (in particular the much-needed high technology) from the West. This system de facto transforms the country into a Third World, colonial entity, with the difference that Africa or Ibero-America are used as sources for the extraction of raw materials, while the main raw material in the C.S.F.R. is relatively skilled, but cheap, labor.

The process of privatization in Czechoslovakia is problematic, because no normal Czech or Slovak citizen has the funds to buy a former state company. Who has money? Only the communist party or foreigners. On top of that, a highly restrictive credit policy doesn't allow the formation of a national *Mittelstand,* a layer of private entrepreneurs with medium-sized productive firms.

Also under Vaclav Klaus, government-sponsored infrastructural projects are outlawed. No exaggeration! Infrastructure projects are not *neglected,* as one would tend to think, but *rejected outright.*

At the end of March, Klaus made a speech to the Institute of Economic Affairs in London, in which he listed as his enemies "all those who organize elaborate government programs, build infrastructure and dominating industries, determine winners and losers, ask for massive Western financial aid, help endangered companies." Klaus says he wants a "pure market economy."

It is not only *EIR* that has discovered that the Sachs-IMF approach is a disastrous failure. So did the Geneva-based U.N. Economic Council, whose former director Melvin Fagen said that the shock therapy was a mistake. Also Prof. Kasimir Laski of the Vienna Institute for International Economic Reseasrch called it an utter failure.

But most important is the recent criticism of Balcerowicz in Warsaw itself: President Lech Walesa's chief of staff and close ally Jaroslaw Kaczynski, who is the leader of the Center Alliance, said in a party press conference in mid-June that economic czar Balcerowicz should give up the post of deputy prime minister to Housing Minister Adam Glapinski. "The economic situation is bad, the economy is withering, and a personnel change should take place," he said. Then Glapinski took the podium and explained that the present economic program must be drastically changed, because it is stifling demand and killing Polish industry. Also tight monetary policy and wage controls must be loosened to stimulate demand, and import tariffs should be raised to protect industry from Western competition.

Without the "Productive Triangle," the fate of eastern Europe is grim, and the chances to positively influence the transformation of the Soviet Union are zero. In the context of the Group of Seven meeting in London in July, there are American attempts to force the Soviet Union to accept the dictate of the IMF, the "Polish model" for the Soviet Union. Moscow rejects that. They may like the model for Poland, but not for themselves, because they know too well, that this would give the final blow to the rundown Soviet Economy. *EIR* has first-hand reports that Moscow smells in this IMF tactic an evil Western attempt to weaken the Soviet Union economically still further. He who proposes such tactics, plays a dangerous game.

This doesn't mean that there shouldn't be conditions tied to financial aid to the Soviet Union. There should be political conditions—e.g., in regard to Baltic independence and in regard to more autonomy for the individual Soviet republics in terms of foreign trade deals, etc.—but the conditions have to lead to improvements in the economy, not to its total destruction. Wise Europeans should support those in the republics, as well as in Moscow, who tend to think in terms of the "Productive Triangle."

East Germany

As I come from Germany, you certainly want to hear about the transition process in the five new federal states. In many ways, the crisis in East Germany was quicker and more painful than in the other eastern European countries. The collapse of CMEA trade has hit hard, the big state bureaucracy is being dissolved, and 2,000 of 8,000 state companies have now been privatized by the Treuhand agency and cannot keep all their employees. The result is that of 10 million people in the labor force, 2 million are presently unemployed, and 1.7 million are on short work. In many areas unemployment is above 50%. But since last summer, there were also 400,000 new jobs created, and 200,000 business entities were opened, even though a lot of them are video stores or sausage vendors, and most of them close down again after a short while.

The situation is not easy, but there is a very big difference compared to Poland, the C.S.F.R., or Hungary:

1) Germany is one country, and DM 140 billion [about $78 billion] in government money is flowing into the rebuilding effort. Last year, on top of that, DM 20 billion was invested privately in east Germany. This is a big difference in social terms: DM 70 billion of the DM 140 billion is spent for unemployment benefits and other social costs, DM 20 billion goes to the east German municipalities, and DM 30 billion is spent for productive investments.

2) Unlike in Poland and the C.S.F.R., infrastructure projects are not outlawed in Germany. They may come along too slowly and be too limited, but there is German Transportation Minister Günther Krause's DM 56 billion traffic program for 17 rail, highway, and waterway projects. Most important are the new high-speed east-west connections Berlin-Cologne, Hamburg-Berlin, Nuremberg-Erfurt-Halle-Leipzig-Berlin, Berlin-Dresden, and Leipzig-Göttingen to the Ruhr region. The major handicap in Krause's program, however, is that it doesn't include yet any Maglev-Transrapid connection.

Among the large industrialists, there is a broad consensus that modernization of infrastructure is the key to economic development in East Germany. Klaus Murmann, the president of the German Employers' Association (BDA), foresees more than DM 100 billion in investments into telecommunications and railway projects in the former German Democratic Republic during the '90s, and DM 50-60 billion in energy projects. The idea is to develop east Germany as a new nodal point in East-West and North-South economic relations. It is forecast that the present downturn will end next year, and make room for economic growth.

3) From government people as well as businessmen in Germany we have heard occasionally formulations like: "The pure doctrine of market economy sometimes doesn't work. And if we see that it doesn't work, we must learn from experience." This may be a pragmatic approach, but learning from experience is better than not learning at all.

'Pure' Adam Smith

It may be worthwile, however, to take a more principled glance at this "pure doctrine" which the unfortunate world has inherited from Adam Smith. According to Smith, it is a crime and a frivolous presumption for the state or anyone to intervene in the "invisible laws" of the market:

"The government has no such duty as to direct companies or private people into undertakings most adequate to the common good. If the government would attempt to assume such a duty, this would lead to innumerable illusions . . . because no human knowledge or wisdom could suffice the fulfillment of this duty. . . . A statesman, who would attempt to direct private people in how to use their capital, would not only take on a very unnecessary task, but would assume an authority which is not in the reach of neither a single person nor a council or senate. This would be equally dangerous as if a single person would arrogantly presume such an authority."*

Here you have it: The direction of private funds into undertakings for the common good constitutes a violation of the sacred law of the market. That is where Vaclav Klaus and Jeffrey Sachs draw their wisdom from!

The strange theory of the "invisible hand" of the market comes form the equally strange and immoral philosophy, that "the administration of the great system of the universe . . . the care of the universal happiness of all rational and sensible beings, is the business of God and not of man. To man is allotted a much humbler department . . . the care of his own happiness. . . . Nature has directed us . . . by original and immediate instincts: hunger, thirst, the passion which unites the two sexes, the love of pleasure and the dread of pain." Follow your hedonistic impulses, and all is well, is the rather absurd meaning of that passage. Follow the principle "Buy cheap, sell dear," and the invisible hand of the market will direct everything in an optimal way.

The notion of global free trade rests on the same principle, "Buy cheap, sell dear." In *Wealth of Nations,* Smith says, if a nation produces cotton, for example, because of climatic and other natural reasons, it should simply continue to do so, export it, and buy from the other nations what they can produce best, like textile products from England. But what about building up a national industry of one's own, including textile manufactures? Smith objects: This would be uneconomical, because to produce at home will cost, at the beginning, more than to import already-manufactured goods. This was the system the British Empire wanted to perpetuate vis-à-vis their colonies, including America, until American Independence. And this is how the IMF is arguing today vis-à-vis the raw-materials-producing Third World countries.

(In this respect, it is very important that Mr. Glapinski mentioned the need for protective tariffs for Polish industry. And also another protective measure is absolutely necessary in East Germany and eastern Europe: Once the infrastructure projects get under way, there must be a quota of at least 50% for orders to be given to eastern European construction or industrial companies.)

Another characteristic feature of Adam Smith's doctrine is his neglect of technological innovation as a factor of producing wealth. Even though Papin had already invented a steam engine 100 years before *Wealth of Nations* appeared, and Leibniz had already discussed the revolutionizing consequences of the steam engine for manufacturing, Adam Smith doesn't even hint at it. He rather warns of the high cost of improved machines, which devours a growing part of the overall profit. Instead of spending the money for machines, one could as well employ more workers and buy more raw materials in order to increase production and profit, he argues.

This highly relevant aspect should not be overlooked, when it comes to the deficiencies of "pure free market economy." It is not enough to add the adjective "social" to "free market economy," to make it work: The principle of technological progress, including education and R&D, must not be compromised. If the Germans had really understood that, they would not make the mistake of giving more emphasis to the conventional ICE train than to the much more advanced maglev technology. The Transrapid [maglev] would finally mean a jump ahead, but not even ahead of Japan, which has her own maglev train already and now plans a new maglev track from Tokyo to Osaka.

Depression in America

As Lord Roll of Warburg Bank admits quite openly in his book *History of Economic Thought,* "Smith's purpose was propagandistic." The *Wealth of Nations* was written against the cameralist school of economics (Leibniz, Colbert) in continental Europe. Smith worked as financial and economic adviser to British Prime Minister Townshend, whose Revenue Act was the reason for the famous Boston Tea Party in 1767. Unfortunately the British themselves, and later the Americans, believed in Smith's propaganda. And because they still do, the English-speaking world is nowadays in much worse shape than Germany or Japan.

The United States is a sad example. Taking to heart Smith's advice to import goods cheaply rather than produce them, the U.S. neglected its own productive apparatus for too long. The productive portion of GNP shrank from more than 50% in 1947 to almost 30% in 1987.

The other path of destruction was to seek financial profit through raising the interest rates. Since the 1940s, the American prime lending rate grew from 1.6% to 11.8% in 1989.

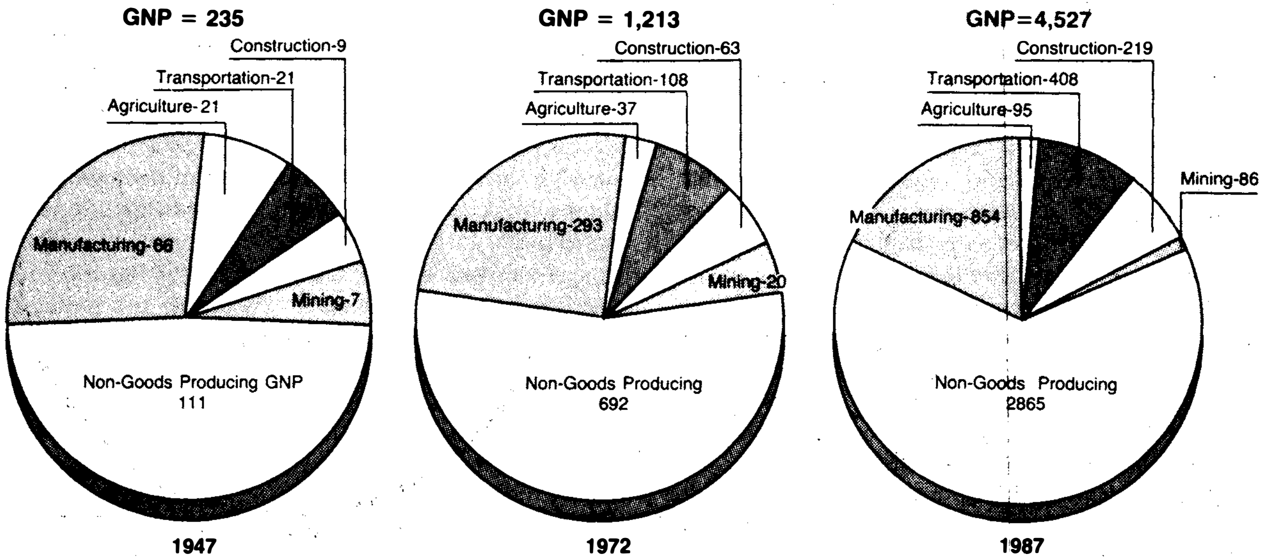
During the last 20 years the speculative financial bubble grew enormously. The biggest part is the growing debt (**Figures 1** and **2**). The biggest cost factor in America as part of GNP is interest and finance charges. While machine-tool production, steel, and the *EIR* industrial index have plum-

*Retranslated from German.

FIGURE 1

The deindustrialization of America: growth of non-goods production as proportion of GNP

(billions of dollars)



The shift toward a post-industrial society can be demonstrated by examining several parameters of the economy. The government measures the share of Gross National Product originating in different sectors and industries of the U.S. economy. Goods production fell as a percentage of GNP from 53% in 1947, to 37% in 1987, the last year for which figures are available.

meted, the debt has grown steeply.

When I presented these facts several days ago to a group of young liberals in Germany, they said incredulously: Why should the U.S. do that, they are shooting themselves in the foot? Yes, indeed. They have shot themselves in the foot.

The miserable shape of the U.S. economy is a great danger for Europe and the world as a whole, because the Bush administration is trying to compensate for the economic decline with military power, which the United States still has. That is the background to the "new world order," which supposedly emerged from the battlefield in the Gulf war.

New York City, the site of the big ticker tape parade, is broken down. Bridgeport, Connecticut, is the first city which has officially filed for bankruptcy since the Great Depression.

Washington needs $400 billion to finance the federal budget deficit until Sept. 30. Where will the money come from? Japan doesn't want to buy more U.S. government paper, and Europe can't, given the tasks facing it in the east. This is the most relevant agenda point in the Group of Seven economic summit in London. Bush will threaten with GATT, with trade war measures. Did you know that the CIA since 1990 has a Fifth Directorate, exclusively dedicated to trade war issues with the "friends and allies who are now our rivals," as CIA director William Webster said?

New world order and North-South conflict

The economic rivalry among the U.S. and its friends and allies in Europe and Asia is one feature of the new world order. The other one is the replacement of the East-West conflict with the North-South conflict. In other words: The economic war among the industrial powers over capital, markets, and raw materials is fought on the back of the developing sector.

According to the free trade doctrine, the developing sector is supposed to remain a supplier of raw materials to the industrial countries. A U.S. National Security Council memorandum of 1974 even uses the raw materials argument to motivate drastic population control measures in a list of 13 developing countries, which Washington wants to convince "how much more efficient expenditures for population control might be than raising production through direct investments in additional irrigation and power projects and factories." [For more on this memorandum, see *EIR*, May 3, 1991—ed.]

This policy was accompanied since the 1970s by a big campaign on the issue of "overpopulation." It claimed that the misery in the world didn't come from underdevelopment, but from "too many people."

But the real reason for the collapse in the less developed countries is shown by the fact that since 1983, more money has flowed out of the developing nations to OECD countries than in. Losses through collapsed raw material prices and growing debt service added up in 1987 to an annual net outflow of $30 billion.

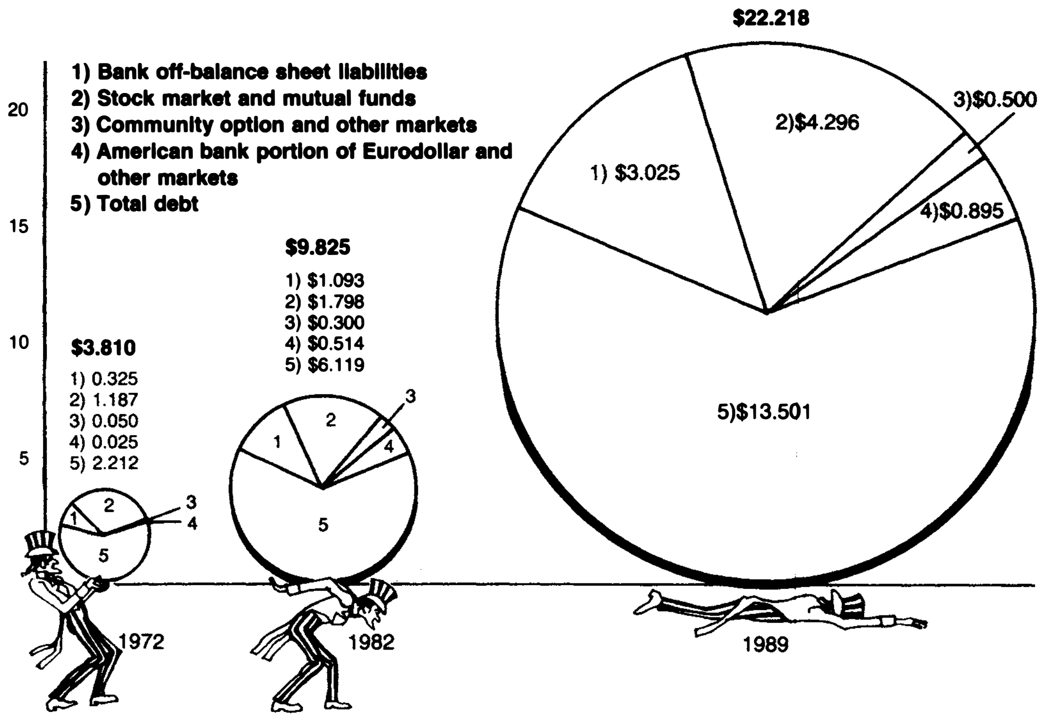
FIGURE 2

Debt & Speculative Investments Bubble, 1972-1989

(trillions of dollars)

In 1972, the total of all debt and speculative investments stood at $3.810 trillion; by 1982, this was inflated to $9.825 trillion, and then to $22.218 trillion by the third quarter of 1989. This growth of the bubble by $12.393 trillion in the last seven years has been misnamed the Reagan-Bush "recovery."

Source: Federal Reserve Board *Flow of Funds Account;* New York Stock Exchange *Fact Books;* Chicago Board of Trade published reports; Salomon Brothers, *The Status of Global Risk-Based Bank Capital Adequacy,* June 1988 report and updated reports; Morgan Guaranty Trust, *World Financial Markets* newsletter.



The high interest rate policy, started by the Federal Reserve and then spread throughout the financial markets, made the debts of the developing nations unpayable. The interest added to the legitimate debt a widening portion of illegitimate debt.

The war of the Anglo-American-led alliance against Iraq marks the beginning of the militarization of the North-South conflict. A member of the U.S. War College identified Iraq in an *EIR* interview, because of its policy of universal education and modern infrastructure, as "the only viable state in the Middle East." That was before the war, of course. Iraq's modern infrastructure no longer exists today.

According to the book *The End of the Past,* by the renowned French geopolitician F.O. Miksche, the North-South conflict will inevitably lead to "intercontinental race wars," because the overpopulation in the South is finally bringing about Oswald Spengler's "demise of the West." "We whites," Miksche writes, are facing the "greatest showdown in our existence" and should get prepared for war against four-fifths of the world's population.

Miksche invokes the "right of the stronger, whom the weaker has to follow. *Oderint, dum metuant*—Let them hate us, as long as they fear us—the old Romans used to say." (Ferdinand Otto Miksche, *Das Ende der Gegenwart,* Herbig Verlag, 1990)

Do we want that? This is sheer insanity. Such a policy would bring about a nightmare of gigantic proportions, because no matter what the details of political and military actions would be, the essence of all of them would be the reduction of the population in the Southern Hemisphere by every means available. In other words: genocide.

The militarization of the North-South conflict must not be the policy of Europe; Europe must say no to this malthusian strategy which is quickly gaining support within NATO and other supranational institutions. There is an alternative: We Europeans have to rediscover the policy envisaged by General de Gaulle, who said in 1960 that Europe should be a model for the "path of cooperation, instead of giving in to the temptation of war," and called for cooperation between East and West in the effort to help the developing sector. In 1960 de Gaulle said, at the National Press Club in Washington: "In our time, there cannot be peace without development. In the developing countries live 2 billion people. I believe, the great task of the world, beyond all theories, doctrines, and regimes, is to help those 2 billion poor people to overcome their misery."

LaRouche's "Productive Triangle" is a concretization of that policy of de Gaulle's, and it is the only alternative to the nightmare outlined above.

Once the "Productive Triangle" works in Europe, it will become a model generally. This cannot but bring about a healthy shift in American policy. But we have to hurry: The Americans will elect a new administration by the end of 1992.