

The failure of communist economics

Lyndon LaRouche analyzes the bankruptcy of Marxian economics, and the alternatives available to Russia, in this memorandum issued on Jan. 8.

It is obvious, of course, that communist economy failed for reasons which are intrinsic, ultimately to its design. On this ground, however, largely through a misapprehension of the actual causes for the collapse of the Bolshevik economy, the argument is made that the free trade model in the West, a model argued to be a successful one, is the alternative to the so-called Karl Marx economy. This line of argument, which is the prevailing sophistry advocated in support of Yegor Gaidar, from the West, and otherwise advocated in the West generally, is the ruling perception, although an absurd one. Like many of the policies in the West and elsewhere today, this one is absolutely absurd.

Let's take this apart piece by piece. I think it necessary to perform this surgery for the information of people in eastern Europe as well as other parts of the world. First of all, Karl Marx specified no form of economy such as communist economy; Marx's work is essentially premised upon the work of the physiocrats, namely Dr. Quesnay and his *Tableaux Economiques*, on the work of Adam Smith, and more immediately, David Ricardo. In other words, Marx is essentially a special office, or special department, of the British East India Company school of economics, despite his criticisms of rival members of the same school.

The British school of economics

This is not accidental, since Marx's work on economics occurred under the direction of one of the three stooges who controlled variously all of Lord Palmerston's assets, Karl Marx included. Marx was essentially a Mazzinian, i.e., he belonged to the Young Germany collection of Giuseppe Mazzini British intelligence assets, together with people like Moses Hess originally; but he was passed in London to the supervision of the third stooge—the most aristocratic of the three—Urquhart, who was Marx's mentor and who steered him through economics.

So what Marx produced as economics is essentially a criticism of the British model of capitalism, the British model as defined by the work of such fellows as David Ricardo. It is a parody of Ricardo, with a throwback to Quesnay's *Tableaux Economiques*. Marx simply indicated that communism would be the negation of certain features of this British

economy, and all of Marx's criticisms are premised on the assumption that the British economy is the only model of capitalist economy, which is frankly, of course, absurd. The American System existed before the British East India Company had elaborated fully the system which Marx criticized, the American System being based and derived largely from the work of Leibniz and Leibniz's allies among the mercantilists, so-called.

The key feature of all these—Russian communism in fact, as well as Karl Marx's three volumes of *Capital*, and the British system—is that they all converge upon the entropic model of economy devised by that fabulous incompetent, the late John Von Neumann, who has a certain affinity, shall we say, to the circles out of which we obtained George and Paul Soros in Hungary. The specific lunacy of John Von Neumann to which I refer here, a lunacy which is in fact embedded in both the physiocratic doctrine and the Adam Smith doctrine of the British East India Company, is his argument that all economics can be reduced to solutions in terms of simultaneous linear inequalities—that is, essentially the positivist dogma of John Von Neumann which affects his work in many areas, as well as economics. It is also the dogma, for example, which underlies Prof. Norbert Wiener's theory of cybernetics.

Apart from all the fancy footwork and studies of random theory—we might say the nonsense field of random numbers—by both John Von Neumann and by Wiener, there is nothing to the system of either which is not essentially representable in a way consistent with simultaneous linear inequalities. Yes, there are anomalies which do not lend themselves to that; but those anomalies are actually things which occur which the system does not allow, which the system tries to explain away, which it cannot. But the essential feature of any system which is based on an "n person" zero sum game, based on simultaneously linear inequalities, is that such a system is incapable of generating a real profit.

In the case of the physiocratic system, going back earlier to the 18th century, the physiocrats, at least some among them such as Quesnay and Turgot, would allow for the admission of profit of a certain type. In the case of the physiocrats who advocated this, the profit that occurred was nothing

but the bounty of nature, not to be explained by anything contributed to labor by man. Man was treated essentially as an animal whose labor contributed nothing to nature; but man, by doing certain things, through mining and agriculture essentially, incurred nature's capacity to generate a bounty, and that profit was nothing more than a division of the bounty contributed through the means of mining and agriculture by nature. Man's labor did not contribute a bounty.

In Adam Smith and others, as particularly in the idea of comparative advantage, the only source of profit is reducing the cost of labor in one way or the other, or simply by cheating and stealing, looting. So actually the economy generates no profit. In point of fact, the economic systems of the physiocrats, especially those of Quesnay, of Adam Smith, of Ricardo, of James Mill, of John Stuart Mill's "marginal utility" followers, as well as Von Neumann, are all entropic. That means that from the beginning of some paleo-historic time, when the human population was less than 10 million, there has been no growth in the physical economy of mankind, except that one would say the physiocrats are tapping natural resources and looting them. Of course this same incompetent, unscientific, physiocratic dogma is the basis for the ideological environmentalist, malthusian environmentalist crew, and was the basis for the malthusian doctrine in the first place. It is a doctrine which comes into biology by way of those who are foolish enough to think Darwin was a scientist.

The source of profit in the Soviet economy

With that said, let us return to Russia. The problem of the Bolshevik economy essentially was that it was a negation of capitalist economy in its civilian sector, and thus it is characterized in most of the civilian sector by a lack of willingness to accept improved technology, a stubborn peasant resistance to technological progress, a kind of Bolshevik, Matushka Rus, physiocratic doctrine.

The contradictory element shows up in the Soviet economy, in particular, and is in the military-industrial sector, which, while based upon the Soviet economy as a whole, nonetheless had a very special characteristic, which all of us who studied these strategic matters in the days of the Cold War knew very well: The Russian scientific industrial complex could make brilliantly applicable weapons systems out of junk with a capacity that the Americans could never rival. It was in the military-industrial complex of Russia that all of the generated profit of the Soviet system was created, and the by-product of the application of science to the production of better combat systems, and there the matter lies today.

The military sector of Russia was an economy essentially of exception. It was a war economy section which lay outside what is otherwise the general economy of Russia. The result is that the dismantling of the military industrial complex means the collapse of the Russian economy to a Third World condition.

The problem is a very elementary one. True profit can come from only one source: increases in the productive powers of labor per capita and per square kilometer and per household which are based essentially on the generation and assimilation of scientific and related progress, especially fundamental scientific progress such as new discoveries of principle. The only other source of profit, which you might call pseudo-profit, is by exploitation and looting or swindles. In a capitalist economy modeled after the physiocrats in general—Turgot being an interesting partial exception, but especially in the Adam Smith, Ricardo, Marx, Mill tradition, and also of course John Von Neumann—there is no profit except by theft, looting, swindle. The profit comes at the expense of the system in a physical sense, and thus the higher the rate of profit, the greater amount of profit allowed, the more rapidly the entropic process of collapse of the entire physical system proceeds.

Actually, as British imperial looting of the world attests, during the 19th century, the rise of British economic power came solely from looting the rest of the world, so the net effect upon the world was one of a decay of the world economy to satisfy the appetites of the British parasite, pretty much like a cancer. It develops no profit, and neither does the communist system. You notice it in Karl Marx. It is emphatic both in the concluding parts of volume I of *Capital* and throughout volume III, and also in his fallacious fraudulent model of expanded reproduction and notions of simple and expanded reproduction in volumes II and III of *Capital*, that this is a purely *entropic* model which is intrinsically analogous, though less radical in form, to John Von Neumann's silly, stupid, fraudulent notion of economy as an "n person" zero sum game, that can be based upon a set of linear inequalities. This is the same problem that afflicts us with the lunacies of Norbert Wiener—cybernetics—as applied to man, economy, and language, though his theory does have some machine applications.

That's the nature of the situation. The only conceptual system which accounts for profit is the system of physical economy developed by Leibniz, which accounted for the profit coming from two sources, both related to the increase in the productive powers of labor. One is the increase of the productive powers of labor through the heat-powered machine, a subject which Leibniz originated and developed in some length, in parallel with similar work of Christian Huygens.

The second, which Leibniz was rather unique in conceptualizing, even though others before him knew of this but they hadn't conceptualized it in the Platonic sense, is technology. There are cases which are crucial for the entire theory. This is the aspect of economics on which I focus my attention most greatly, in which principal discoveries applied in the form of machine tool or equivalent elaborations result in an increase in the productive powers of labor by an improved machine, yet without necessarily any increase in the amount of power

throughput per capita for the person and the machine.

It is through this combination of increase of heat power and technology that mankind increases the productive powers of labor, and it is from this source alone, these kinds of physical scientific innovation in the modes of production alone, that true profit is generated and that mankind was enabled, by approximations of this principle to emerge from an early Cenozoic human population of less than 10 million potential population-density to modern society.

From the standpoint of the Russian nation, the Russian scientist is generally the key to seeing what the solution is, what the alternative is to this hopeless choice. The choice is Buridan's ass, shall we say, between the straw of the old communist way of civilian economy and the useless, leached-down hay of the British free trade model.

So we have thus the Russian system, which had only one element which is capable of producing profit, even though it was not producing essentially for the civilian economy, and that was the military-industrial complex, which applied scientific discovery including fundamental scientific discovery, the discoveries of principle, to machine-tool principle elaboration and to improved military devices, which is a form of productivity. The same form of productivity increase applied to the civilian sector will give us the kind of economy we desire in terms of net result, i.e., one which has a real profit rate of growth in increasing the productive powers of labor per capita and per square kilometer, through raising the standard of living, through the reinvestment of this margin of increase which we would call profit.

Otherwise, the Russian system is a complete failure, analogous to the intrinsic failure of a free trade model, and all free trade models are inherently entropic and lead to nothing but disaster. The higher the rate of profit in a free trade model, the higher the rate of collapse of the economy as a whole.

Of course, in the 19th century and 18th century, there were no free trade models. They didn't exist. Even in Britain they did not allow free trade through the 18th and 19th century. They demanded it of France, which collapsed the French economy in the six years from 1783-89, and brought in the Shelburne-Bentham assets, the French Jacobins, to destroy and largely decapitate French science and the French econo-

my at the time. They demanded it of the American colonies from 1783-89, and the freed colonies, the young United States, collapsed because of free trade, until the Philadelphia convention of 1787 set into motion what became the form of the federal republic which instituted anti-British free trade, the anti-Adam Smith model of economy called the American System of Hamilton, et al. In France, in the continent of Europe, and in the case of Friedrich List in Germany, and elsewhere, you see that every successful economy of the 18th and 19th centuries, with the exception shall we say of Britain, relied upon internal dirigist development of a state sector combined with a growing private sector, whose existence depended upon the infrastructure provided either directly or through regulation by the state sector. It is this two-sector model of economy which every successful economy practiced, which Britain itself practiced in a certain manner at home. The difference in Britain is that Britain's wealth came not from its own production, but from its looting of its colonies and other parts of the world. Without the City of London's role in looting, aided by the British Navy and other forces, Britain would have collapsed long ago.

There is no case for a free trade economy, until rather recently, until some lunatic followers of Milton Friedman and so forth decided to try to have one: some so-called pure capitalist economy based on globalist free trade, which is the shortest road to a dark age one can conceive. The only approximation of a free trade model prior to this time was the usury model of the early 14th century which caused the collapse of the European population by one half through famine and disease, and the general collapse of the level of civilization of Europe into what was called by the middle of that century "a new dark age," which is pretty much what we're headed to now unless we get rid of those fellows, or at least the influence of those fellows, who are represented by the bureaucracies of the International Monetary Fund (IMF) and World Bank today, as well as Harvard people like Jeffrey Sachs, a complete lunatic.

My discovery applied to Russia

To come to the final point pertaining to, in specific, the Russian question. In a report which is in the process of publication now, on the nature of my discovery in the 1948-52 period of work on this matter, I indicate that the fundamental questions of physical science must be determined from the standpoint I employed and developed over the 1948-52 period, in respect to questions of economy: that the question of scientific discovery depends not upon theorem-proofs, but upon hypothesis.

The history of hypothesis is the key to defining a foreseeable increase in the productive powers of labor of mankind, resulting from scientific progress dictated by that choice of line of hypothesis, that successful hypothesis, a successful hypothesis which is known in Plato as higher hypothesis. Now what it proves—the higher hypothesis, one alternative

higher hypothesis against another—is the reflection of this hypothesis in terms of increasing man’s power over nature. The question of knowledge of nature is not a contemplative question, but is a practical question of increasing mankind’s power over the nature of mankind as a species, or mankind as a nation as a surrogate for a species.

Therefore economy, physical economy, the increase of the rate of profit, real profit, physical profit per capita and per square kilometer on this planet, or as we explore space analogously, is the measure of which method of hypothesis of higher hypothesis is preferable in increasing man’s power over nature, and thus is a higher hypothesis which is in closer correspondence with the laws of the universe. From comparison of different modes of higher hypothesis which the history of scientific discoveries has enabled us to do, if we look at scientific discovery from the standpoint of hypothesis rather than theory, it enables us to think in terms of a still higher level, which Plato identifies as “hypothesizing the higher hypothesis,” to generalize on the subject of variability among various possible higher hypotheses.

That is true knowledge. This is true for physical science in a very obvious way; but as I’ve indicated, the basis for scientific truth is not located adequately, i.e., with necessary and sufficient reason, in terms of isolated laboratory experiments, no matter how many of them. The test of knowledge is whether the mode of hypothesis used to generate new discoveries of principle leads man toward an increase in potential population-density or not. The comparisons among different kinds of species of higher hypothesis are made in terms of their effect in terms of potential population-density increases. Thus the epistemological basis for certitude or relative certitude in scientific knowledge, i.e., physical science, depends upon the science of physical economy. Without basing the notion of physical science on physical economy, there is no adequate, sufficient reason on which to premise a theory of scientific method. It is only in terms of physical economy, in terms of increasing the per capita and per square kilometer density of man’s power over nature in this universe, that we can have an epistemological standpoint from which to judge with necessary and sufficient reason what is the proper principle of scientific method.

We have in Russia, in the scientific and military industrial complex as a whole, people who are actually good scientists—as a matter of fact they were one of the best set of scientists on this planet, before they were subjected to this process of dispersion by Gaidar’s methods, Sachs’s methods. From the standpoint of the Russian nation, the Russian scientist is generally the key to seeing what the solution is, what the alternative is to this hopeless choice. The choice is Buridan’s ass, shall we say, between the straw of the old communist way of civilian economy and the useless, leached-down hay of the British free trade model.

The Russian scientists, particularly those who have looked at and studied the military-industrial sector of Russia,

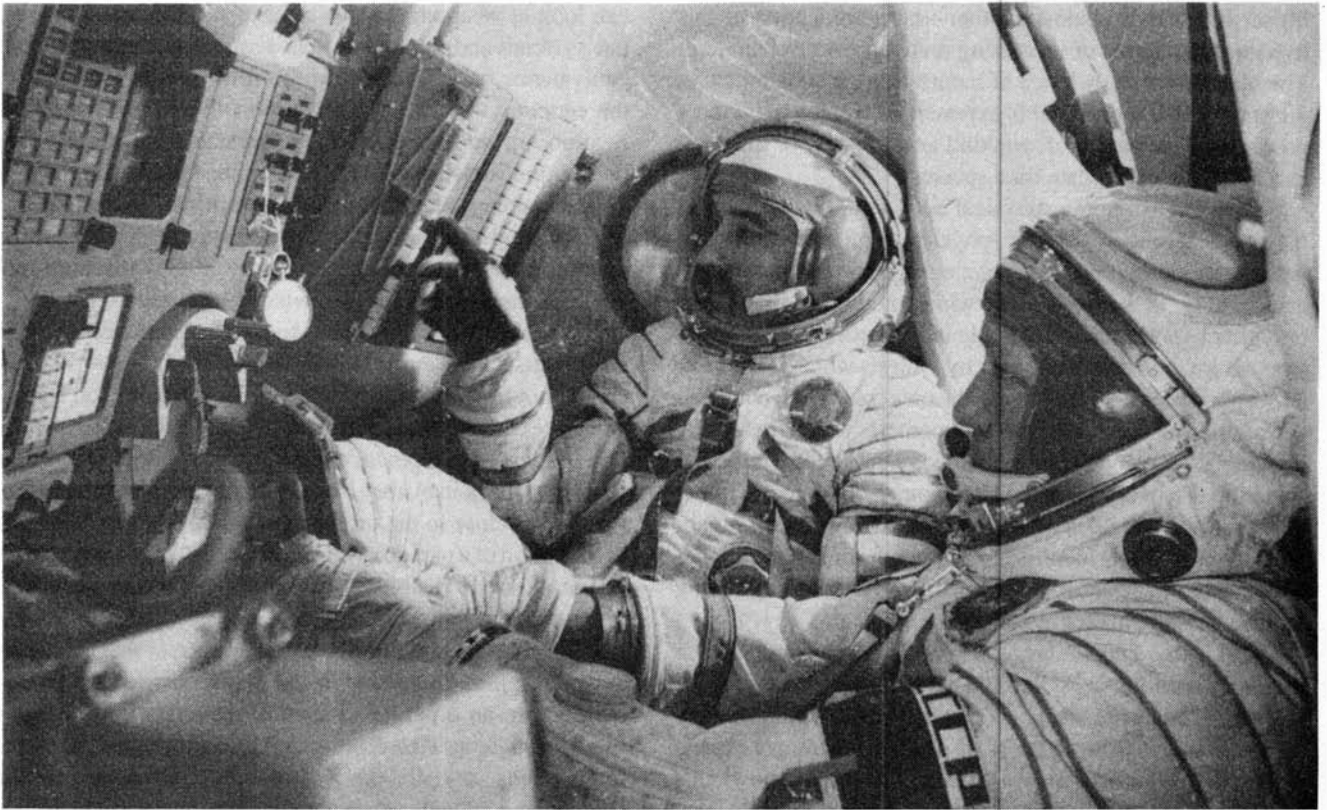
can look at weapons systems, not just individual weapons, but systems and applications in terms of its fire power or equivalence, as equivalent to the form fire power takes in the economy, which is called productivity; and seeing the relationship between physical principle and this notion of fire power, the Russian scientist can understand exactly how a good economy should function in terms of increasing the relationship between scientific progress in respecting principle, the conversion of these principles into machine tool applications and then into knowledge and product.

The other aspect is obvious to the Russian scientist, as to all scientists who are true scientists around the world: You should not learn science from a textbook; nor do you learn it from a textbook and experiment, even though experimentation is a very noble practice and a necessary one. One learns it by going back in history in the form of a classical education, to study as close to the original source as possible, the form of a solution of a paradox which represents an original discovery of all kinds of things, beginning in formal knowledge today with the Pythagorean theorem.

The child must replicate the experience of that discovery by the original discoverer in the child’s own mind and by building up an ordering of these discoveries in the child’s mind through the 19th century and through reflections on the implications, say, for the Russian child, of what were the sources and influences on Dmitri Mendeleev which produced his great Periodic Table discovery. The Russian scientific child now has an intimate personal knowledge of the inside of the mind of many thousands of leading discoverers before him or her, in terms of those moments of discovery in which the hypothesis provided the solution. We know that all human discovery occurs not as a group principle, not by a consensus, but rather by an individual experience within an individual human mind, as within the mind of Pythagoras or perhaps from the time of Plato, the mind of Theatetus, Theodorus, and so forth.

Thus we realize that while society must take general responsibility for providing things like infrastructure and maintaining credit and monetary systems on a state basis, and protecting its private sector with suitable means of economic protection, that the likely implementation of innovations derived from scientific and related progress will best come through the farmer, who is a technologically progressive farmer, or the entrepreneur in the goods production sector of industry, who is a progressive entrepreneur in terms of technology, who uses technology to increase productivity and to produce a better quality product, a more useful form of product, or to produce new kinds of products which improve the consumption by industries and households.

Therefore every Russian scientist who thinks through this problem as I’ve posed it, will see that we need this combination—with the state sector, which is infrastructure, which is credit systems, which are the essential social systems of education and health care, with private doctors, of



Cosmonauts Georgi Ivanov (Bulgaria) and Nikolai Rukavishnikov (U.S.S.R.) in training for a Soyuz mission during the Soviet period. It was in the military-industrial complex of Russia that all of the generated profit of the Soviet system was created.

course, plugged into the state apparatus, the infrastructural side of the health care apparatus. But in agriculture and in manufacturing industry and in related construction crafts and so forth, we must prefer private initiative, which places the emphasis upon the mind and will and courage of the individual entrepreneur, who is progressively minded in technology, and who defines a better product as improvements in technology, productivity, or technology defining new kinds of products, more useful and which enhance the total package of consumption by industries and by households. We need that kind of mixed economy which is anticipated implicitly by Alexander Hamilton in his famous three papers, especially *Report on Manufactures*, when he was treasury secretary under George Washington and by the successors of Hamilton including, in Germany, Friedrich List, and such successors in Russia who understood the matters from this standpoint. Even though Stolypin carried out many aspects of the reforms designed by Count Sergei Witte which the czar would not allow Witte to do (but the czar would allow Stolypin to do), it was Witte who understood the essential implications of this principle probably largely through his collaboration with such people as Dmitri Mendeleev.

That should be generally in our discussion and analysis of the problem from the standpoint from which we examine the Russian question and the possibility of a Russian internal

intellectual policy-shaping solution to the crisis which afflicts Russia and the former Warsaw Pact and Soviet bloc today. A similar situation applies in a different way to Poland, to the Czech Republic, to Slovakia, to Hungary, and to the people who are now in unified Germany from east Germany. That is the major point to be made in this connection.

A final note

Finally, negatively in the same connection, it should be obvious, implicitly, from what I just said that I agree with everything French Nobel laureate Maurice Allais has said, demonstrating the criminal **stupidity** of the bureaucracy of the World Bank and IMF and **like-thinking** institutions [see *EIR*, Nov. 26, 1993, "Fight Over Global Free Trade Erupts in France"]; but also that Allais's analysis does not go far enough, because he does not consider the physics side of the thing, the Leibnizian principles of physical economy, which go beyond his treatment merely of monetary financial systems and of costs, objective costs, from the economic standpoint of physical economy, which Allais does consider. Up to that point, everything he says is valid, it is important, and is right! Politically right. The opposition to him on these issues is fanaticism of a very bad kind. What Allais does not do, which we must do, is to go to the deeper applications of this, on which my work places the emphasis.