
A Seminar on Eurasia

Ideas, not opinions, are needed to save the world

by Jonathan Tennenbaum

On Dec. 16, 1997, at the invitation of *EIR* and the Schiller Institute, representatives from Russia, China, Ukraine, Georgia, Armenia, Hungary, Slovakia, and Poland joined Lyndon LaRouche in a wide-reaching, all-day seminar on the world economic and political crisis, with particular attention to the situation in eastern Europe and Asia.

The seminar, held near Wiesbaden, Germany, has become a yearly institution, organized in connection with the Schiller Institute's year-end European conference. The seminar was informal in character, and the presentations were not intended for direct publication. However, for the benefit of *EIR*'s readers, and in view of the extraordinary importance and profundity of the matters discussed, we offer the following summary account of the highlights of the seminar, based on excerpts and close paraphrases from the discussion. Appended to this report, is the text of a paper presented by the Chinese economist Bi Jiyao, on the history and current status of the economic reform in China, followed by a short, but strategically important report by Haik Babookhanian, on the situation in Armenia.

LaRouche's opening statement

Lyndon LaRouche led off the discussion by concentrating on the key issue underlying everything: the human mind. He opened as follows.

The problem we are facing in eastern Europe, as all over the world, is that people have opinions, but not ideas. An idea is developed in a four-step process. It involves uncovering a paradox, where the prevailing belief says that something cannot happen, but the evidence shows that it did happen. And since both the event and the belief are based on the same quality of evidence, we have an ontological paradox; that is, the evidence has contradicted itself. This forces the human being to use the power of cognition, the power by which we make scientific discoveries of principle, to synthesize a new principle, which resolves this paradox.

Now, this process of cognition cannot be seen, cannot be smelled. It can only be replicated. That is, one mind can repeat the same synthesis as another mind. You cannot write it in a book. It's an idea, a principle, which has no existence, explicitly, in the domain of sense-perception. That is why the British

are so stupid: clever, but stupid. Because they don't believe in ideas, but only in sense-perceptions.

Once you have discovered a principle, you have to prove it. You can describe the principle you have to prove, in terms of the contradiction; you say, I believe this is the problem, and if I am correct, the following evidence can be found to support my belief. The experimental method, which is the third step; so people know what you are talking about, a principle which can be tested. The fourth step is an experiment, or similar sort of investigation, to measure your principle. If your principle is valid, now you have a principle which you have proven, that nature, or something like nature, is controlled by this principle. You have evidence that this principle works, and you also know this principle has resolved the paradox of the evidence you had before. The result is an idea, not an opinion. It is an idea which has the quality of truth. It is not a personal impression, it is not an impulse or ideology. It is truth; it is the standard of human truth, of human knowledge.

People who discover principles in this manner, *know*; people who learn things in other ways, do not know, they have only learned, the way a dog has learned to do tricks for food.

The problem is that no one has had an idea. The Soviet Union had a system which was very strong. One day, it died. Why did it die? Nobody in Russia in top positions asked that question. They said, now we are going to join the Western system, which we don't know much about, but we are going to imitate it, even though we do not understand it. And they demonstrated clearly that they did not understand it at all. And they joined the system like a man who leaves a rowboat, to get onto a ship which is sinking. They joined the West when the West was dying. Rather than trying to learn the lesson, and to have an *idea* of what went wrong in the Soviet system, where the flaw was, they simply jumped out of their skins, and went for new opinions. And, the new opinions were worse than anything they had experienced under the Soviet system! Because nobody had an idea, but many people had opinions. If anyone had an idea, they were not allowed to talk. That's the problem.

The same thing in the Western system. We see it this week, at the edge of doom. The system is faced with a possible

chain reaction of defaults on obligations. If South Korea defaults on its debt, then Japanese assets which are based on South Korea are worthless. Then the yen drops, a chain reaction of defaults runs around the world, and Russia is one place which will explode under these conditions.

This was inevitable. I have been forecasting this danger since 1959, showing in perfectly rationally demonstrable fashion, that the system was doomed. What finally doomed the system was a change in culture, which was introduced between 1964 and 1972. People no longer believed in production; they became neo-Malthusians; they believed in post-industrial society; they believed that making money was everything, whether they produced anything or not. So, production per capita went down, and money went up. Now we come to a point, where the system which has dominated the world—this modern European civilization, which was the most powerful in the world—is now collapsing, like Babylon, into the dust. It is a civilization which above all has lost the moral fitness to survive; that is, the ability to respond to a challenge with decisions which tend to solve the problem.

Instead, people say, we must save our ideology at all costs. So, for example, Kohl is destroying Germany, by sticking to Maastricht, which is destroying all of Europe. That is the general problem we see, looking at the world as a whole. The United States government, at least the Executive branch, is not as stupid as it appears to be. There are people in the White House and around it, who are not stupid. That's not their problem. They are not as intelligent as they should be, but they are not stupid. The problem is, they come from a generation that went to universities between 1964 and 1972, and is today running the top positions in government, in economy and finance. They are the Malthusians; they do not believe in reality. They cannot bring themselves to accept decisions which conflict with what their generation takes as ideological values they must defend. They believe in saving the environment, but what they believe about the environment is insane—things like banning DDT, global warming, and so on, are all fraudulent. You have people in power who are incapable of responding to reality. They have no ideas. The process of developing ideas is not used.

It is extremely important, that there be people in various countries, who are willing to formulate ideas, to define the problems in a way which defines the paradoxes, which leads to a discussion which forces ideas to the fore, which can then be examined and tested against evidence, to define principles to be used.

The most important insanity today, is the belief in human nature as defined by Thomas Hobbes, that man is a creature of greed, of lust, and so on. Man is not a creature of greed; man is a creature of identity. What motivates people is a sense of their personal identity. What motivates a nation to act in concert, is a notion of national identity. That is why nations are so important. Without that sense, you cannot have unity of action of people, to address problems.

All nations have the same interest, insofar as the people are concerned. What is the essential interest? The essential interest of a nation is to provide for all its people, to improve the lives of all the people. To improve the standard of living, and to respect, above all, the dignity of the individual human person; that is, to elevate the condition of the individual person. We all have the same problem.

The natural form of society, the thing we have to achieve, is not world government. We have to achieve a concept of the mutual interest of sovereign nations; which means, that at the same time, we have to have an insight into the problems of



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—Lyndon H. LaRouche, Jr.

the nation-states with which we are collaborating, as well as our own. By discussing the common problems, we may find a strategy, something we can defend and fight for.

We have to create, at this moment, on this planet, a new world system. The only way we will create it, is because the existing beliefs are destroying themselves. The world financial system is disintegrating, and nothing can prevent that disintegration. Either it will disintegrate of itself, or we will put it out of business by government action. Otherwise, it will either blow up, in a hyperinflationary spiral, or, it will collapse in a chain reaction of defaults.

So, we have reached the point that the system is doomed. Under such circumstances, if leadership around *ideas* can be provided, then a population, which has given up all belief in the ideas which are destroying it, might accept the new ideas and may survive.

The principle is, develop the right ideas. Don't worry about who accepts them. I am concerned about what is truth. The truth must ultimately win, and I care not who believes it

or not. If we develop truth, and if people accept the truth, then the civilization will survive. If they don't accept the truth, it will not survive. But at least we will have done our duty, by presenting the truth. Our concern is to get at the truth, or at least to get a good approximation of it. And therefore, I think the basis of looking for the ideas which define the problems, ideas which define collaboration around solutions, is what is necessary. This kind of seminar format, which deals with the differences in experience and outlook of various parts of this region of the world, is probably the most effective way to force some of that kind of discussion into the open.

How to reorganize the world economy

Following LaRouche's introductory remarks, a number of questions were raised by participants, centering on what kind of new financial system must be set up in the future, to replace the present, collapsing one. LaRouche replied as follows:

Generally, for a sudden change in system, under conditions of crisis, we always have to rely, chiefly, on precedent, in order to get agreement among large groups of people and nations. You must use precedents, or elements of them, which have been successful. The best precedent that we have for the international reorganization, was what was done at the end of World War II, in the original Bretton Woods effort, which established, under conditions of limited convertibility of currencies, under strict capital controls and foreign exchange controls, by governments, a system of fixed parities, or approximately fixed parities, among nation-states.

This system continued until about 1959, when the condition of limited convertibility began to end, as more and more countries went off limited convertibility. Its purpose was to create, in a world destroyed by war, or coming out of war conditions, the conditions of re-creating an economy, including re-creating currencies, where none existed. So, we are going to be in a situation where money has been discredited; the existing currencies are worthless. The euro will be the most worthless of all. Therefore, we have to create new currencies.

This forces us to abandon all monetary theory in the ordinary sense. We must think in terms of two things: physical economy, first, and then, what kind of monetary and credit system do we require, to facilitate the process of investment, production, and so forth. What we are dealing with, is hands and minds; and certain resources, industries that may exist or can be reconstructed. It does not require money; idiots think that this requires money. Governments can create money; the question is, how is the money used? Therefore, the idea is of a program of economic reconstruction, and the creation and management of money, to bring about that program of construction.

We are going to have to create new currencies, which they did, under the Bretton Woods system. It would probably have to be a gold-based system. Not a gold-standard system, like

the British system, but gold as a reference for maintaining parities among currencies, by resolving differences at the end of the year in balances of selling gold.

It means a system to promote long-term credit at very low borrowing costs on the international market, especially among governments. We will have to eliminate central banks; the central banks are all bankrupt, and you cannot build a new system by trying to maintain a dead one. Therefore, we will have to create national banks.

Governments will agree to set up their own national banks, to manage their own business internally. The relations among states, in terms of financial relations, will be largely regulated between governments and national banks. Governments will loan each other credits.

Let me give an example: Egypt, which is not the least developed country in the world, some years ago had an excellent program. They recognized that you could not maintain decayed cities like Alexandria and Cairo, which, relative to the infrastructure, were overpopulated. It cost more to run a welfare program in the poor parts of Cairo or Alexandria, which are the decaying parts, than to build a new city outside Cairo. So they conceived of the idea, of using irrigation and large-scale water management projects, to create new agro-industrial projects, of over a half-million or several million population. To create an industrial center surrounded by agricultural development, and to move people from the old cities to the new cities, and reduce the population of Alexandria and Cairo, and then return to rebuild Alexandria and Cairo with modern infrastructure.

The key was this: About 95% of the total resources for this project—which was stopped by the World Bank and International Monetary Fund (IMF)—came from domestic Egyptian sources. That would be the model for most cases. In the poorer cases of countries of Africa, you would require more outside resources, but most will find in their internal resources, labor and other resources, 90-95% of what is required. So, international credit, if it is properly managed, will be essentially for high-technology investments for countries which are less developed, from countries which have more advanced technologies, as was the case in Egypt.

So, these developing countries must have the ability to borrow, on a 10-20-25-year basis, for the capital investment they require for their development projects. And that should be a long-term investment. We should not be financing 20-year capital investment, on five-year loans; short-term borrowing for long-term investment is insane. If we manage it in terms of credit from one national bank to another national bank, for purposes of export-import, of long-term capital movements, it will work.

This means, the whole repertoire of what was used during the postwar period, plus national banking.

Generally, the model of economy which developing countries have always wanted—what they wanted at the end of World War II, for example—is what we used to call the Amer-

ican System. The American System, as defined by Abraham Lincoln and Henry Carey during 1861-76, developed the U.S. economy into the technologically most advanced, most powerful economy in the world. In China's case, this was the policy of Dr. Sun Yat-sen. This is what a developing country needs. We would have to have the American System. This was the system that was used in Germany, though it had financier corruption on top.

How will this be done? We are coming to a crisis; it is now in Asia. All of Asia is about to go into a chain reaction of default which will spread into areas of the former U.S.S.R. — Russia, in particular — Brazil, and so on. Within a very short period of time, if this continues, there will not be a single part of the world which is not shocked, which has not suffered a catastrophe, because of the debt crisis, which will spread from one part of the world to another. This will be immediately a crisis for western Europe; this will hit Germany very hard, because all the export markets will collapse. When European firms have made investments, in developing countries, those will be temporarily virtually worthless. The financial collapse, in terms of East Asia, will hit Europe in a matter of weeks if not sooner. We will have a world that will be on its back.

What I fought for, to the extent of my ability, was to make sure that the U.S. government, in the meeting between President Bill Clinton and President Jiang Zemin, would enter a process of partnership, because China is the largest country, in terms of development, in Asia, even though it is not a world power, it is a regional power. If the United States, and China, and other countries, agree on what measures to take, and if they have the courage to make the decisions, the world will have to accept them, under these conditions.

My concern has been to try to involve India in this, as well as Iran, as well as other countries.

My hope has been, that Europe, especially western Europe, and Germany, would recognize its vital interests in that kind of cooperation.

This means that Russia will have to play a significant part. My view on Russia's part is twofold. We must bring Central Asia under control. This is a very dangerous part of the world right now. People are playing games, especially the British, very dangerous games, in Central Asia. Therefore, we must have stability, which means we must have projects. India is very useful for this. India has very significant input in some parts of Central Asia, for various Indian reasons. Russia has very good knowledge of this area. It is of vital interest to China, to Russia, to Iran, to India, that this area be stable.

Therefore, Russia's contribution is actually, potentially in the area of the former, scientific, military-industrial complex. That complex can generate a new quantity and quality of machine-tool design, for the development of the population of Asia. Under the appropriate conditions, Russia can create entire new industries of a machine-tool character, based on the scientific cadres which it has. It can actually draw back

to Russia, people who have left Russia, who were scientific cadres. Ukraine can do the same thing, to create machine-tool-design capabilities to assist the developing countries of Asia, which have, either, almost no, or entirely inadequate machine-tool-design capability.

If we take the whole complex, if the United States continues a partnership with China, if this extends to include most of East and South Asia, if this includes Iran, Russia, and at least one state in western Europe, then we have the ability to create a new system.

We are dealing with, largely, a developing sector world, in terms of population — India will soon have more population than China, and you add other countries. This is the majority of the world's population. This means, that the long agenda which was started by Franklin Roosevelt, before he died, of economic justice for the so-called former colonial world, the desire for a just, new economic order, can be established; because, the political combination of forces which can do it, want that. It is in the interests of China, of India, to have a just, new economic order, rather than the old kind of system, the way it is developing.

On the question of Eurasia: All great recovery programs, have generally been based on infrastructure, for obvious reasons. First of all, private interests cannot manage the whole territory, or commit themselves to the whole population. The problem I have tried to explain to our Indian friends, is that you cannot have over half your population living below the poverty line, and say that you have growth, because you have growth in your cities. Either the economy as a whole grows, and the benefit to all the people grows, or you do not have valid growth. You will find out soon enough, that your illusion of growth, was an illusion. If the rich are rich, and growing richer, that does not mean that the country is richer, if the poor are becoming poorer. Therefore, you must have a policy that can take care of the whole land area, and the whole people. It must be just for all the people, just for all the land.

There is no private interest that can have that interest, or that has that authority. Therefore, only a national government can do this. Now, national government is not very good at running productive industry. National governments cannot be good entrepreneurs, or private businesses. But private interests are no good at infrastructure; it has to be government regulation, or even government economy.

If government has to cause a recovery, the recovery must come from what government does well, which is infrastructure. Infrastructure is like preparing the ground for the seeds; the seeds are the entrepreneurs, and the ground must be prepared for the seeds. In order to construct infrastructure, the government must use entrepreneurs, who then work as contractors for the government, to assist and participate in building the infrastructure. Thus, by building the infrastructure, the government nourishes the private sector, which can add to the development of this kind of system.

Eurasia must develop its interior. China must develop its

interior. It has only developed, so far, a small part, on the east coast. Now, it must develop the whole. Eurasia must have transport, in the form of development corridors. All the countries of Eurasia, must collaborate to develop these corridors. For Central Asia, water management is critical. For the requirements of power, use nuclear, especially the high-temperature reactor. Forget about oil. To develop these technologies, and the transport system, Russia can help, using its scientific cadres, which can add to the development of these kind of systems, for example.

Therefore, we see that this is a worldwide system: the Bering Strait connection to the Americas. In Africa: We have the obvious development corridors in Africa, north-south, east-west. Asia is going to require vast food supplies, and Africa is the great area of the world, which has the greatest potential for rapidly increasing the food supplies of Eurasia. So, Eurasia has a great interest in investing in the development of Africa for the purposes of developing food-supply production.

So, you have, essentially, the basis for global production, around a change of the economic geography of the world, which is in the common interests, which involves many nations, which must participate and cooperate. This would be adequate to cause the greatest rate of growth this planet has ever known.

Economics and the nature of man

Reflecting on conceptual difficulties that often arise in connection with the idea of credit generation by national banks, Jonathan Tennenbaum posed the following question. One of the issues in the Chinese reform, and also in Russia and other countries, is the problem of how to create the conception, at least in a substantial part of the population, of what a productive economy really is, of where wealth comes from. In the Chinese case, a sizable part of the total investment in the economy has been foreign investment, and the Chinese government would not like to face a situation in which a substantially lower amount of foreign investment would come in. There is a widespread attitude, that foreign investment (which functions, in a sense, as a form of credit) is productive and effective, whereas domestically generated credit tends to be ineffective. China has policy banks, and has internal credit-generation mechanisms for investment, but the accumulation of debt in the state industry sector is a problem. But much more, it is a problem of mentality. One is dealing with a vast population which has lived for a long time in great poverty, and now all of a sudden, some people are making in one year what they could before make in a lifetime. So, it is easy for the population to think of consumerism, or the great office-building construction, as growth, whereas, it is really a cost to the economy. Because of this conceptual problem, there is the fear, that generation of credit in a national bank would not be productive, that it would tend to build up an inflationary bubble.

LaRouche replied:

The problem we have had, is that in every economics textbook ever written, there is a fundamental form of scientific incompetence, which comes to the fore. If you ask one question, and people take that question seriously, which they should, then their answer shows that all generally taught eco-



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nomics is incompetent. What is the difference in the design of an economy for monkeys, and for people? The assumption is made, that capital accumulation comes by withholding part of the product of labor as profit, which is not true. It happens, but that is bad if it happens. The source of wealth is not labor as such in the sense of physical labor; the source of wealth is from the *mind*. Through changes in technology, and the application of scientific discoveries in changes of technology, in order to change the productive process—the idea of a true not-entropic process. It is idiocy to believe that a simple, crude mathematical representation of an economy, explains economy. A monkey could never develop an economy.

Look at the ironies of the Soviet military-scientific sector as opposed to its civilian sector. Look at the Soviet military product, on a world standard. What was its performance quality, relative to the performance quality of the Soviet civilian industry? It stunk. It was a lack of understanding of this problem, which is already in Marx. Marx did not understand this at all. He said, I am ignoring the technological composition of capital. What is the technological composition of capital? It's the *mind*; it is the principle of the American system, the Lincoln system.

The development of the mind of the population, the im-

provement of the mind of the population, the improvement of culture is the source of wealth! How does mankind come from the level of a species like an ape, which has no more population potential than 3-5 million on this planet? How does mankind get to hundreds of millions of population, at an improved standard of living, way above the monkey level, to modern civilization? How did we do this? Because the development of ideas by the cognitive processes of the human mind, translated into improvements in production, is the source of increase of wealth. Profit is nothing more than the increase of the actual wealth-creating potential per capita of the society. In the Soviet military industry, the product had to perform, in the civilian industry it did not.

The problem is a misconception of how an economy works. It is the development of the individual personality, and the emphasis on scientific and technological progress, which is the source of increase of wealth. And you have to educate your population better. You have to get teachers who work in terms of ideas. The key employee, who makes an industry work, is the one who develops ideas, one who says, we made a mistake here, we can do it better this way. When you treat people like slaves, like oxen or cattle, they don't produce so well. You must elevate them.

The conception here is the conception of man. How do you define man? Is man a wretch, is he a cow, is he an ox, or is a human being a beautiful thing, capable of these wonderful things called ideas?

China is too defensive in its approach sometimes. What is powerful about China, the advantage of China, is that China is undergoing, in large degree, real growth, because the state is committed to the improvement and development of the whole people.

The destruction of education in eastern Europe

In her remarks to the seminar, Nina Gromyko, of the Methodological University in Moscow, stressed the issue of culture and education. She pointed to the deliberate process of destruction of the culture and morality of the Russian population, through commercial advertisement and the promotion of "post-modernist" values. There is a technology of mass manipulation. For example, in Pushkin Square in the center of Moscow, you see a great advertisement board, with Coca Cola, Samsung, McDonalds, and a little figure of Pushkin standing in front. So, Pushkin has been made part of the consumer culture. There is a use of meaningless symbols, which destroy consciousness. Words are separated from their meanings.

The media are promoting a climate of mass cynicism, in which everything is mocked, and in which people take joy in disasters which are actually going to hit their own lives, as if it were only a game. Especially disastrous is the situation in the educational system. I have spoken with the Schiller Institute concerning the destruction of the Classical system of education, and they told me exactly the same thing is hap-

pening in Germany. Today, we have a lot of textbooks financed by the Soros Foundation, which is a reflection of the post-modern ideology.

There is a Presidential decree on the reform of education, and now various concepts of reform are being put forward. But, the share of education in the whole budget is only 1.8%. That means for us, in the near future, the total death of the educational system. What do the authors of these concepts suggest? They have no idea, no objectives for education. All they are oriented to, is how to adapt education to the current economic situation. So, for example, school buildings are proposed to be leased to wealthy companies. Of course, many schools in Russia are in such disastrous physical condition, that no businessman would want to use them.

LaRouche said we must orient to ideas. I recognize this. But, what is the idea of the development of education as the basis of national economy?

LaRouche responded:

I ran into the post-modernist business in the late 1940s in the United States. The worst form came from Hungary, with the promotion of so-called non-objective art. I studied this thing closely; it is very dangerous. Soros comes from this culture. This came from the Vienna-Budapest base that produced Freud, and also produced the Frankfurt School. Jacques Derrida is the same thing.

This is a denial of ideas. The objective is to achieve an emotional state. Don't discuss ideas, but discuss emotional states! Time disappears; there is no progress, no history. The characteristic of post-modernist education is the elimination of history.

The mind can work in two ways. One way is cognitive, according to truthfulness and ideas. The other is, you react with a certain emotion to a certain word or object. You live in a timeless world. You become bored with a certain object, so somebody comes up with a new object. Because, the characteristic of post-modernism is boredom. So, you go from one momentary pleasurable state to another pleasurable state.

The characteristic of the Baby Boomer is to say—the key phrase—"Don't go there." If it is agreed that certain subjects bring up unpleasant psychological states, then don't bring the subject up. The purpose is to make the population stupid. Turn people back from modern civilization, back into cattle.

The difficulty of this is, that the essence of knowing is experienced in the mind as "*unheimlich*," as the state of *agapē*, the state of discovering truth, or relieving an injustice. In a good educational system, the child goes through ideas in a progressive way. For example, in geometry. The child finds out something that is truthful, but finds it is not truthful enough; you have to find something else. Each time the child discovers a principle, the mind goes through this experience. The child that has that kind of education, begins to recognize this state of mind in others as well as in themselves. You have a sense of progress.

But people who have no *agapē*, have no happiness. If you

have an education and culture with no *agapē*, you have people with no happiness. Therefore, they are constantly trying to relieve the tension of not having happiness, by momentary pleasure. So, you buy an object for a momentary pleasure.

This is a deliberately engineered process of destruction of the population. We have to recognize that this is the face of the enemy. Because, if you take a population, and you destroy their capacity for happiness, for love, and all these things, you get a bunch of maniacs.

Helga Zepp LaRouche added a remark, on the role of great culture in educating the emotions:

Schiller concluded, after the French Revolution and especially after the Jacobin terror, that improvement in politics can only occur through the ennoblement of the individual. His entire work, including the tragedies, and the whole idea of the theater as a moral institution, was designed to bring in front of the population, those issues which force the man and woman to confront himself or herself with the great issues of mankind, issues of survival, power, freedom of entire nations. Confront the audience with these great issues, by portraying key characters in the drama, so the audience identifies with these heroes, and becomes attached to thinking about such larger issues.

Berthold Brecht is an evil influence trying to destroy exactly that. This was a very bad influence in East Germany, for example. Brecht wanted to prevent the audience from identifying with the hero of a drama, and growing. So, Brecht introduced the alienation effect, breaking the tension and creating a detached attitude.

So, we are dealing with conscious cultural warfare. How do you make a population into a bigger people, versus how do you make them more stupid, how do you dumb them down. That is the issue.

What would you have done, Mr. LaRouche?

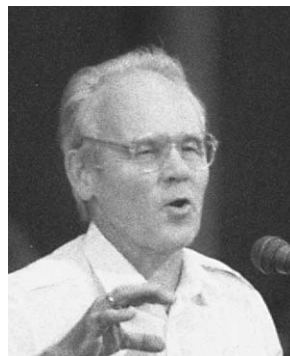
Dr. Jozef Miklosko, from Slovakia, posed a provocative question, reflecting on his own experience as vice-premier in the first post-communist government of former Czechoslovakia, during the crucial period of transition. He noted:

We have some paradoxes in our history: We had a big chance, but no alternative. Nobody was prepared for the change, it was a big shock. I was in government. We had only two years time to prepare 187 big laws. The time was going by quickly, and we had not much time to think. There was a big orientation to the West, and the slogan, we are going to Europe, we don't want any more of the old system. Should the old communists go to jail? We said, we should forgive them. But, many became millionaires. Liberalism took the place of communism. People said, you can have freedom, freedom, freedom, but then chaos and disorder came. My question to Mr. LaRouche: You were in jail, at the time, but if you had been President of Czechoslovakia, or maybe Russia, in this time, what would have been your priorities?

LaRouche answered:

You had several characteristics in the Comecon bloc: The lack of connection between a machine-tool sector and the economy in general. The lack of an educational system oriented to do that for the whole population. The other characteristic, obvious to anyone in government, is the lack of infrastructure, no infrastructural development.

The first thing is to say, we have to create a banking and credit system, and immediately institute programs to address the infrastructural problem. Infrastructure development is the



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thing which will stimulate every part of the economy.

Therefore, you want a credit system which is actually not liberal, but highly structured. You say, what are the national needs? You give credit to people, if they will set up this kind of operation which will solve this specific kind of problem. And, if they perform, they will get more credit. If they don't, too bad, we get somebody else. You create an entrepreneurial group of people who address problems, and we are going to use the priorities of infrastructure development, sanitation systems, power systems, education, these kinds of things that government can do, to stimulate the whole economy quickly, to get real growth.

You do not need neon signs, you don't have to dress like some idiot on the streets of Paris. You don't encourage importing foreign goods, you foster producing them. Unlike the crazy thing which happened to Ukraine, for example, when I was there: Ukraine was increasing its import of food from the Netherlands, while shutting down the production of food in the Ukraine. This was insane!

You want to have a tight protectionist system, which prevents flooding the consumer market with imported goods. If

you need things, you buy them on the internal market. You need very strict regulation of what you allow to be imported. You don't go on an orgy.

It is the same way we ran the American System in the beginning: a highly protectionist economy with an emphasis on infrastructure, promoting scientific and technological progress, providing credit to entrepreneurs who are going to solve problems, living by goods we produced ourselves, creating industries to produce our own goods rather than importing them, making trade agreements with other countries, to balance trade and to share your growth programs. You needed not a Comecon, but something to replace the Comecon, which would be a system of mutually beneficial trading agreements, but a highly protectionist system.

Forget this liberalism. Remember, free trade was like drugs. Free trade was something the British in the eighteenth and nineteenth century exported to idiots called victims. They never used it for themselves, they demanded that the victims use it, like the dumping of opium on China. They demanded that China accept free trade and opium, but they wouldn't permit free trade in Britain. Go for infrastructure, restrict what you import, conserve resources, supply abundant long-term credit to any entrepreneur who does a good job, and make trading agreements with your neighbors, which will be beneficial to them and to you. But don't waste your money on cheap entertainment, and don't pay any money for rock concerts.

The Chinese economic reform as a problem-solving process

Chinese economist Bi Jiyao presented an overview of the development and present stage of economic reform in China. Dr. Bi's step-by-step account of the reform, starting with the restructuring of Chinese agriculture, and progressing to other sectors of the economy through a continuing process of problem-solving and reevaluation, made a strong impression on the participants. It stood in striking contrast to the post-1990 "shock therapy," which has wrecked the economies of Russia and eastern Europe. Particularly striking was the summary of the goals set in the Ninth Five-Year Plan and the Long-Range objectives for the year 2010, which Bi summarized as follows:

To complete the second phase of the strategic plan for modernization, and to quadruple the GNP per capita compared to 1980, under the condition that the population in China will have increased in the year 2000 by 300 million over 1980; to raise the people's living standards to that of a fairly comfortable life with poverty practically eradicated; and to speed up the construction of a modern enterprise system and preliminarily establish a socialist market system. By 2010, the GNP will be double that of the year 2000, people will enjoy an even more comfortable life, and a relatively complete socialist market system will come into being. (The text of Bi Jiyao's presentation is reproduced below.)

Overcoming an artificial dualism

In the discussion following Mr. Bi's presentation, one of the participants raised the question, whether it is sufficient just to talk about economics in material terms. Is there not more? Does simply having material goods make people happy? In a beautiful response, LaRouche challenged the participants to overcome the artificial dualism of so-called "material" and "spiritual" development, by grasping the scientific conception, of what economy really is, in terms of development of the population. Only from this standpoint, can you define "human rights."

LaRouche said:

There is a cultural problem here, and the fact that those few people who express relative competence in economics today, are competent not because they have a competent theory—they don't have a competent theory—but because they have clinical competence. They develop insights, but they don't really understand how things work. Remember, the human mind, which is the key to economy, is the most sophisticated phenomenon in the universe. No generally accepted mathematics can deal with processes, whose characteristic curvature is based on these cognitive processes.

What must you measure in an economy? You must not measure fixed, countable things only. You can't count objects and say, we have produced so and so many objects, therefore this year is better than last year. That's not true. It is a qualitative question which comes down to the most sophisticated notion of curvature in the small.

We have to get into a notion of anti-entropy, which is why I have defined it the way I have. This has to come, first of all, from the level of the professionals, who have to scrap the way economics is taught today, and adopt a system which is accurate. Once that's done, now you could begin to explain to the people what this is.

People function on the basis of a sense of identity, a sense of ideas. And in terms of economics, people are barbarians, we're not civilized. Because, what you have to do, is to develop the *person*, the individual. Which means, a certain kind of education. In Germany, we scrapped it, the Brandt reform destroyed it. Now there is no good education system in Germany any more, and you don't have people who are competent to govern.

People themselves have to understand development. If the people don't know any better, they develop what is called a "cargo culture." In World War II, the United States would go to islands in the Pacific, they would send boatloads of goods—every kind of objects: food, machinery, and so on. The people developed a theory of economy, which was that ships come and bring this cargo. Religions developed in these islands, called "cargo cults." The religion was, what to do to make the ships come, to deliver the cargo which made the people prosperous again? We live in a time, as Nina Gromyko described in the case of Russia, when people actually are

living in a mental state, like barbarians, who have a cargo culture. "Do I have a TV set? Do I have an automobile?" If they have an automobile, even if they had no road, they feel rich. What are you going to have in China? One billion automobiles? Where are you going to drive the automobiles?

Whereas, the happy person will ask, "Am I developing? Is my son more productive than I am, does he have a better education, can he do things I can't do? What do I require for that? For my children I have to have a room, where they can concentrate without interruption; I have to have access to Classical music for them, I have to have books for them. I have to have friends who are not baboons. Does the community have good libraries? Do the schools have scientific experimental centers? Do the teachers have the ability to get somebody with a machine shop in the town, with the capability to build experiments to demonstrate physical principles to children?" If you are going to be a scientist, you have to be involved in Classical music. Because without Classical music, you cannot do creativity on a basic level. Because you have to get your mind in a certain state.

So, you begin to think about all the things that increase the potential productive power of labor. What does that mean? It means, first of all, to develop the mind, to provide the child with everything necessary to develop the mind. To be part of a creative culture when they are very young. Mozart was

composing music when he was a child. Why should not every child have access to the kind of education which permits the child to make certain kinds of progress from very early on? To develop the character of the mind, to develop the knowledge of the mind, from the earliest time, to give the child the sense that they are part of history.

Begin to think about those kinds of things. This is the quality of life. The leaders have to understand *why* we emphasize this. Why are we trying to revolutionize the teaching of mathematics? Why are we afraid of computer technology? Because it is going to promote linearization in the small, digitalization of the mind, virtual human beings, turning our children into virtual human beings, instead of real ones. You have to have, among the leadership, the leading strata of society, a new conception of man, based on a more accurate conception, of what we mean by development, by growth. And you have to bring that knowledge, through education, to the ordinary people, so they know they are not cargo-cult people. They know what they must be looking for, to see if they are succeeding. Once they understand it, they will demand it. But now, they don't know what they should look for. We the elite, the intellectuals, we have to make this concept clear, and then practice it and teach it to people. We have to bring a correct conception of man, of the individual, to people. Once the people understand this, then society will be secure.

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Russia on the brink

Prof. Gregory Gregorevich Pirogov, a well-known economist and orientalist from Russia, gave an overview of the disastrous situation of the Russian economy, as a result of the policies promoted by the IMF. Professor Pirogov said:

What is current situation? Russia is already suffering the impact of the financial crisis. The latest projections of GNP were revised downward to a negative value. The rate of shrinkage of employment was 1% per month, but for December, 3%. Investment is at very low level, now about 15-20% of the level before collapse began, and now falling further. There is a permanent deficit in the state budget. Tax collection has fallen to a critical level. In the first nine of the current year there was a 100 trillion ruble shortfall in tax collection, compared with 160 trillion rubles of state revenues for the same period. Now, our foreign currency reserves have been reduced by \$5-6 billion. Capacity utilization in Russia is low, and falling.

We had a seminar on current problems of Russia, and directors of enterprises gave reports on the current state of industry. Our industry is out of money, out of working capital, out of raw materials supply, out of production equipment. Everything is depleted. We are on the brink of serious collapse of production capability.

The most acute danger is the flight of foreign capital, which puts a drain on our currency resources. The most acute case is the flight of foreign capital from the GKO (Russian state bonds), with far-reaching consequences. Another danger is, that to fill up the treasury, the government is rapidly selling off the last of our key industries. The price for those industries is going down. It is very profitable for the foreign buyer, but it ruins our budget and industry.

Another point is the growth of debt servicing. Bear in mind, that our debt service cost is equal to 26% of our budget outlays. That should be compared with the expenditure in education and science which make up about 3% of the budget. We do not know if the budget can support a further growth of debt servicing.

Another point is illegal capital flight, now about \$20-30 billion per year, but there are reasons to fear it will be growing in the context of the world financial crisis. To counter those threats, the government has to raise interest rates; but to raise the rate of the GKO, brings further falls in production, because even today, it is practically impossible to raise credit for the productive sector. With further increases, financing real production will be completely ruled out.

Some factors of the situation can have an ironically positive effect, in the short term. We have a comparatively small volume of foreign investment, for example. In the year 1996, there were about \$6 billion, 2% of world volume. So, even the flight of foreign capital is not so dangerous to the production sector, because foreign investment plays only a small role there. Another factor is the insufficient money supply in the economy. The volume of M2 is about 13% of GNP; normally,

in a developed country, it should be 60-80%. The United States, with 120%, is an exception, because there are many dollars outside the United States. So, there is much room to issue money without inducing hyperinflation in a short time. The securities market has a comparatively small role; its collapse has comparatively little impact on the real sector. So, some disadvantages of our economy are turned to advantages, but maybe not of a permanent character.

Now, some basic background. In my opinion, reforms were necessary to bring flexibility to our economy, to help conversion of the military complex, and to transfer military technology to civilian uses. But, what really happened was quite the reverse. This was not an error, but a conscious policy. Why?

From the beginning there was set a goal to form a small group of rich people, at the cost of the majority of the population. The middle class is very small; a very tiny group of rich people control the vast majority of wealth, and the rest of the population is impoverished. This is the so-called "two-hump" distribution of wealth. In a developed country, normally the distribution should be near to a normal, Gaussian distribution. A large middle class is the basis of mass production. But you do not have this in a two-hump distribution, where the rich are oriented not to mass production, but to buying luxuries from abroad, and the poor masses now are oriented to mere subsistence, "natural economy."

So, there is no effective demand, no base for mass-production of domestic goods, no incentives for investment at home. When we were in Zyuganov's Presidential campaign, we met with experts from leading investment firms of the world. They said, that if Yeltsin is elected, a flow of foreign investment will go to Russia. But, to have foreign investment to Russia, you must have a large internal market. If the market is small, you have no incentive for foreign investment. In fact, nothing occurred. The elite layer has to have wealth to buy luxury goods and to build their estates; they cannot get that from mass production, so they are looting the wealth of the nation. Where there is no domestic market, it is very difficult to go into exports. Japan could develop exports after World War II, because it had a large domestic market.

I give the example of a tractor factory in Vladimir, which produced good tractors, and once had a great demand from abroad. But the capacity was very large—about 7,000 tractors per month. Now, due to the ruining of Russia's agriculture, the domestic market shrunk and became very small. So, they could produce only for abroad. But that meant that they could not produce a large enough lot to have a competitive price. They had to raise the price because of under-utilization of capacity. As a result, they had to withdraw also from the foreign markets. Now, I think the production is practically stopped, at least from time to time.

This shows what is going on. We mainly export raw materials and fuel, and thereby we nurture secessionism in the country, because each region wants to sell its raw materials

and get the income for themselves. So, this is a threat to national unity, in contrast to a real growth policy, which would support national integrity by building a big domestic market.

Now, on the policies of the IMF. The main direction of the IMF policies was deflation policy, which led to the shortage of working capital in the industry. They also sponsored the export of raw materials and fuel. They demanded, that the export duties for fuels be abolished, which was a severe blow to our budget. They also required export and import certification by independent certifiers, which is a strong instrument to control capital flight, also be abolished. We tried to introduce a quota for alcohol imports, but they demanded the quotas be dropped. Now, they are pressing for the disintegration of the so-called natural monopolies; first the monopoly for fuels and the integrated energy system.

The integrated energy system has great importance for Russia. Because of the great extent of our territory, we can have night in the West and day in the East, so we can transfer electricity with this system. If we disintegrate this system, we will get a very chaotic situation in the energy market. The IMF wants the energy to be privatized, and wants to put foreign control on our energy system, as it did with our communications system.

Another pressure point is the privatization of land. Briefly, today, Russian agriculture does not need a completely free land market, as we have no shortage of land in our agriculture. The shortage is a shortage of capital and equipment. Also, we have a grave discrepancy between industrial and agricultural prices. Under such conditions, only a crazy entrepreneur would invest in agriculture. If he should buy land, it would be used only for speculation, not for agricultural purposes.

There is a common feature in IMF policies toward our country and toward Asian countries. They are demanding a larger share of foreign capital in the economies of those countries, in order to buy up the key industries and the best enterprises, the same as in our country. As the share prices fall, they can easily buy potentially competitive enterprises, as was done for the Norilsk nickel complex. As a result of this privatization, the Norilsk mills are almost completely isolated from our market; they are working for the foreign market and receiving equipment from the foreign market. They do not pay taxes to the treasury.

A new form of slavery in Russia

Prof. Taras Muranivsky, president of the Schiller Institute in Moscow, added some remarks on the present economic crisis in Russia. He said:

There are many things destroying the situation in our country, to make us into a Third World country, in culture. The crucial importance of education was correctly underlined by LaRouche and others. Our government, however, feels that in education we must adapt to the economic policy which

we have. But the economy is being destroyed, and we are doing the same in education.

When there is long-term investment, this money cannot flee, because it is put into the productive forces. Because of this, investments in China don't take flight, because most investments are in the productive sector. But most investment into Russia is short-term, in GKO state bonds and so-called European Bonds. And, as in Mexico in December 1994, the money begins to take flight because it has not been used. What



President Yeltsin ordered young reformers in the government, to pay the pensioners. So, they took money

from another part of the budget to pay the pensioners. They work as a fire brigade. When ordered to pay the military, they stopped paying the pensions. Some people work for a whole year without salary, a new form of slavery.

—Prof. Taras Muranivsky

does the government do? Very strangely, they try to prove that nothing is happening, that the situation is very good. In reality, from the money that was supposed to be put into industry, agriculture, and infrastructure, the central bank of Russia used it all to save the stock market and the GKO and Eurobonds. Nothing was put into industry, in spite of government lies, that it is going to develop industry.

Now we have the project of a high-speed train from Petersburg to Moscow, but the mass media are trying to destroy the project, claiming it will damage the environment. In fact, the lack of infrastructure is affecting all of Russia. We continue to lose many products; because of lack of roads, everything is spoiled.

The military-industrial complex (MIC) is problem number one. On this depends many problems in machine-building, in foreign trade, because in our MIC the quality of scientific and engineering achievement is on the highest world level. But, in reality, the conversion was directed to destroying ev-

everything, to destroying science and technological potential, instead of transferring it. I think the main reasons are connected with the wrong, monetarist policy of the people around Yeltsin, Chernomyrdin, and others — not only Chubais. They said the task is to stop inflation and fill the gaps in the budget, then everything will be okay. They claimed that the recession in production was not important. Now, we have no big inflation, but we cannot invest anything into the productive sphere. The monetarist mentality will continue the vicious circle which we have.

Russia and Ukraine operate on the Presidential system, with the President giving out orders. So, President Yeltsin ordered young reformers in the government, to pay the pensioners. So, they took money from another part of the budget to pay the pensioners. They work as a fire brigade. When ordered to pay the military, they stopped paying the pensions. But, the military is big. They promised to pay for December, but did not. Now, Yeltsin ordered them to pay everybody! I am sure they will not pay. They are ready to sell the best enterprises for the cheapest price. They are ready to sell father and mother, and I don't know what. So, people work, but don't get a wage. Some people work for a whole year without salary, a new form of slavery.

Collapse continues in Ukraine

Anatoly Viktorovich Voznytsa, from Kiev, summarized the situation in his country, which is in many respects similar to that in Russia, but substantially worse. In summary, he reported as follows:

I think that the majority of people here are acquainted with the situation in Ukraine. Some of the problems are the same for Russia and Ukraine, and were mentioned by Professors Muranivsky and Pirogov. The financial system, and particularly the condition of state finances, is in a permanent crisis, and hovering on the edge of the abyss. The collapse in production and the growth of unemployment continues without abating. Unfortunately, there are no precise numbers, and you cannot rely on government figures. But, it is certain that the present production level is not more than 40% of 1990. The only thing preventing total disaster, is the fact that virtually the entire adult population is involved in growing food, often with nothing but their bare hands. So, the population is not physically dying.

Voznytsa spoke of the increasing economic discrepancies between eastern and western Ukraine. The western part, closer to Europe, is relatively better off than the eastern part, which was the most heavily industrialized before, but where virtually nothing has been invested into industry for 20 years. This situation is heating up the danger of an east-west split of the country.

The coming national elections, to be held in late March, will not solve anything, and the change of the electoral system has increased the chaos factor.

Strategic disaster in the making in the Caucasus

Haik Babookhanian, from Armenia, presented a grave picture of the situation in Armenia, emphasizing especially the potential, major strategic crisis which is building up now, over the possible stationing of NATO troops near the borders with Russia and Iran, as part of a projected "peace-keeping" mission in Nagorno-Karabakh. LaRouche commented, that Mr. Babookhanian had touched upon a matter of the utmost strategic importance, together with the situation in the Central Asian republics. Madmen are about to blow the world up in flames, he said, and we have to stop it. (Mr. Babookhanian's paper is reproduced below.)

The situation in Georgia

Vladimir Kilisonia presented some remarks about the situation in Georgia:

I want to say, many thanks to the Schiller Institute. Very often in Tbilisi, I am asked why the Schiller Institute always talks about the British Empire. But, I also know the history of Georgia, when Georgia was under British rule. Now, British Petroleum is very active in Georgia.

In terms of the situation in Georgia, I want to point out that Moscow has electricity; also, Kiev has electricity. No problem. But in Georgia, in the villages, there has been no electricity for three years. Now, in the capital of our country, we have electricity in the morning for two hours, in evening for two hours. Official unemployment is 8%, but in reality it is more than 92%! To maintain its standard of living, a family would need \$400 per month, but now we earn only \$15. The productive economy is destroyed, we have no industries left. Before *perestroika* we had more than 1,200 enterprises, now we have nothing, only a black market, and speeches. The World Bank gives credit with various programs for transport, medicine, agriculture, but where is this money? Only paper.

After the latest financial crisis, many of my friends called and said, LaRouche talked about this, and it is true, so Lyndon LaRouche's authority is big.

LaRouche responded, on the issue of the British Empire:

All around the world there are romantics, with Cold War-period myths. They don't know, that the conflict with the British is a conflict of principle. We must free this planet, once and for all, from the bloodsucker principle of looting finance. We have a principle of evil, which happens to have an incarnation which is called the Anglo-Dutch oligarchy. We have some people in our country, you have some in Russia, much of Europe is owned by this. It happens to be, that the City of London, the British monarchy and its Privy Council, is the center of evil in the world today. If we broke that evil on this planet, then all the problems we are discussing today, would not exist. And sometimes you must recognize the principle of St. Augustine, of justified war. This British force has to be destroyed. It is better to destroy it by other means, than

to go to war. The United States is a corrupt country, but not an evil country. I could not exist inside the British Empire. I would have been dead long ago.

We must be as angels

At the end of the seminar, there was a discussion about the deeper reasons why the situation in China is so different from that of the former Soviet Union. Some participants gave expression to a sense of pessimism, which tends to envelop people in the devastated countries of eastern Europe. Lyndon LaRouche responded, closing a most fruitful day of discussions, with the following comments:

The question is answered by a methodological approach. In science, what is usually wrong is not what is *present*, but what is *missing*. All scientific discovery is based on discovering something which was missing.

This is true in the case of nations. In the development of China, you cannot ignore the fact that there was a section of the Communist Party in China, which was sometimes in prison and sometimes in other places, which maintained a continuity. In the period following the death of Mao Zedong, this group, led by Deng Xiaoping, managed to put into place a leadership in China, which, at the time of Deng's death, was in place. Jiang Zemin, typifies this, but not he alone; there is a whole group of people in the leadership, who are what was needed by China, so that it could do what it could do.

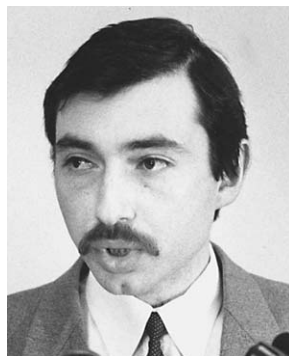
Man is intrinsically good; all babies are born good, all people's babies are born good. They all have this potential for good. Each one is like an angel. When a baby comes, it's an angel on a mission. Now, it does not come with any instructions; it comes with a capability. The baby will discover what mission it has. The baby will grow and develop the capabilities to carry out the mission. Then the baby will die, as an older person. But the baby will, like an angel, have come to society and done some good. And, society needed that angel to come to society at that time to do that good. And anybody who is any good, wishes to be such an angel. You come with no special powers, no ticket telling you what your instructions are, but you have to recognize your instructions from your situation, and do some good; so that when you die, you have been an angel, who came and did some good for humanity.

All people are like that; so, why don't all people act like that, at all times? Because society depends upon people who act like angels to other people, as leaders, people who inspire, who provide ideas that are needed at that time.

Then, what is an evil society? An evil society is one which does not allow angels to be angels. It works to suppress those who try to change things, it wants to turn people into animals, or into Hermann Hesse's Steppenwolf types.

The problem in Russia was, essentially, not communism or anything else like that. In the 1970s, I knew that the Soviet Union was doomed. I knew it because the leadership of the Communist Party had praised Brezhnev for not being a volun-

tarist. Because, all leadership is of a voluntarist nature. Since man is not perfect, the kinds of societies that are given to us by our predecessors, are always imperfect. And, if they continue with that imperfection, they will turn into their opposite, they will become oppressive. We depend upon people to come forward, who are voluntarists, who are leaders, who inspire a people, who lead them, as the present leadership of China has inspired its people with the confidence to do something. And they have spent about 20 years now in this process. And now, you have a whole leadership which is recognized by its people, by the institutions, as a new leader-



The real question is not oil, but the destabilization of the region, and not only of the Transcaucasus countries, but also Russia and Iran. For the first time in history, it is proposed to bring NATO troops into the territory of the former Soviet Union.

—Haik Babookhanian

ship which they trust. This new leadership is making a change. It is the change that has saved China.

In Russia, they succeeded in preventing such a leadership from emerging. The KGB was all too successful, the "*Chekisty*" and similar systems. What was the evil in Russia—as I know evil, and I saw the evil in the Soviet system—is named mediocrity, the power of mediocrity to suppress genius. You had geniuses, but what did the geniuses do? They ran into science, they went into the Academy of Science, whatever they could do, just to escape from the *Chekisty* and the mediocrities, to find something useful to do, to find a niche where they can do something, to make their lives meaningful. These were Russian patriots, and this was the only place where they could go, to do some good.

I'll take my own case, in the United States. The United States, the spring of 1945, had become again a good country. People had been called to a mission, under a leader, Franklin Roosevelt. And they were full of optimism. Most American soldiers returning, as I was, from overseas duty, had seen the British Empire, knew it was evil, and knew it had to be destroyed. I was in India, Burma: I saw evil. I knew the world

was not safe, when you allow the British System to exist on this planet. It had to be destroyed. Roosevelt—I didn't know it then—Roosevelt had that intention. Roosevelt planned to ally with China, and the Soviet Union, *against Britain*, at the end of the war, to destroy the imperial system. This the majority of the American soldiers returning from overseas duty, that I knew, tended in that direction, because I was organizing around that then. And, they agreed with me. I got back, and they changed.

Now, how many people of my generation, were willing to stand up, to what happened in the United States in 1946 and on under Truman? Almost none. As I said, the same thing happened with the German population, with the “*Gleichschaltung*.” You don't think. You're careful of what you say, you're careful of what you think. But you have a few of us, who stand up and refuse to capitulate. And those of us who *refuse to capitulate to mediocrity*, against all odds, are essential, as the true patriots of our nations. If we are eliminated, the nation will go to Hell. And it would go to Hell, because it allowed itself to be ruled by the principle of mediocrity.

Don't look in Russia, at communism, for what was evil. Because, remember, the Russian people are the Russian people. They're born every day, or used to be, anyway. Every baby is an angel, a potential angel. When you don't let the angels come forth to renew society, if you have a system to prevent them from becoming angels, you repress them, and none escapes. Then you have no leaders, and if you have no true leaders, who are fighters, who will not give up, who are morally strong, then you will not have the ideas, you will not have the programs, the things that are necessary to renew the nation, to correct its errors.

And that's what happened. There were people in Russia who could have done something, but the leadership could never come forth, to do what had to be done. And when they praised Brezhnev for being a mediocrity, and that was considered the moral standard of leadership of the Soviet Union, you say, this nation is doomed, by itself. Doomed, not by any flaw in communism—yes, there were flaws, many of them, in the Soviet system, many flaws—but that was not the problem. The problem was, the system was so efficient in enforcing mediocrity. And that's what I had hoped to break through, back in 1982-83, by giving a new dimension to the scientific, military-industrial complex for renewing the economy. So that you would break something free, to allow the intelligence of the potential angels to take over.

So, don't look for what was wrong in what happened, as such. Look for what was wrong in what was missing, as in science. Always look for the missing principle. When an error occurs, what was missing? Because human beings are intrinsically noble, they are the greatest thing in the universe. If you let them become what they should become, you will always have progress. And the only time a nation destroys itself, a civilization destroys itself, is when it becomes *efficient* in enforcing mediocrity.

China's plan for economic growth

by Bi Jiayao, Ph.D.

This paper was presented at an economic seminar organized by the Schiller Institute in Wiesbaden, Germany, on Dec. 16, 1997. It was entitled “The History and Current Status of Economic Reform in China.” It has been slightly edited, and subheads have been added.

China began its economic reform and opening policies in the late 1970s. After nearly 20 years of economic reform and opening up, China has made great achievements in both economic development and the establishment of a socialist market economic system. From 1979 to 1996, the Chinese economy grew 9.87% annually on average. Total trade volume increased from \$29.3 billion to \$289.9 billion. The cumulative utilization of foreign capital totalled \$283.9 billion, including \$174.9 billion in foreign direct investment. The people's living standard has also increased by a large margin. Having successfully realized a soft-landing in 1996, China's economy is expected to increase by 9% for 1997, with the inflation rate being reduced further, to 5%.

Since the 1950s, China for many years adopted a highly centralized planned economic system. At that time, this system made a great contribution to the key construction projects, rational allocation of resources, optimizing regional economies, and building a preliminary basis for industrialization by concentrating the country's financial, material, and human resources, promoting economic and social development in China.

However, the defects of this centralized, planned economic system became more and more obvious, with the continuous expansion of the scale of economic development, and the increasing complexity of the economic structure. The policy of one-sided increases in the level of public ownership did not conform to the reality of China's economic development. The government intervened too much in the business affairs of state-owned enterprises, with the enterprises lacking essential independence in their operation and management. Overly rigid economic planning curtailed the role of the market mechanism, resulting in serious distortions in the economy. In addition, blind egalitarianism in income distribution reduced the economic efficiency by restraining individual incentives. These and other drawbacks seriously obstructed the economic development in China. Thus, planned and step-by-step economic restructuring became unavoidable.