

The Precedent of Postwar Reconstruction for Today

On May 5, Lyndon LaRouche was the main speaker at a conference of ISIES, a think-tank associated with the Chamber of Commerce of Vicenza, Italy. Here is an edited transcript of his presentation and the two-hour discussion which followed.

What I shall present is, essentially, in the final analysis, a message of optimism. But we must face the realities which stand in the way of success.

To situate ourselves in the larger picture: After the close of the Second World War, a policy developed by Franklin Roosevelt was incompletely used in cooperation between Europe and the United States, and elsewhere. This was the original Bretton Woods system. A system of fixed exchange rates, of long-term regulation of tariffs and trade, and of the use of the power of the U.S. dollar, then, to provide credit for the reconstruction of Europe and other parts of the world.

This continued until a change occurred at the beginning of the 1960s. Some of you are old enough to remember, as young people or as adults, what happened in 1962: the great Missiles Crisis; the repeated efforts of the international synarchist movement to assassinate President Charles de Gaulle of France; the assassination of President Kennedy; the entry of the United States into the war in Indo-China. This began a process of self-destruction of the United States, which gradually spread into Europe, and became severe after the 1971 change in the monetary system.

The coincidence of the Indo-China War's beginning, with the Harold Wilson government in England, was a disaster for the United Kingdom as well as for the United States; and this disaster spread, as a trend in Europe, shortly after that.

What happened in the United States was, there was a long-term trend toward transforming the U.S. economy from a production economy to a consumer society. . . . In this process, between 1964 and 1971, and continuing through 1981, we had a very profound transformation in the characteristics of the world economy.

The first phase was 1964 through 1972, predominantly the shift to a "post-industrial society" and the beginning of trouble in the form of an insurrectionary movement among youth and others.

In 1971, with the decision, under the influence of Kissinger, Paul Volcker, and George Shultz, Nixon broke up the postwar monetary system.

From 1971 to 1981, we had, both in the United States and

Britain, and also worldwide, a process of deregulation, of destruction of the entire protective system of tariffs, trade regulation, and so forth. And this was continued also in the form of a breakdown and destruction of larger and larger amounts of the basic economic infrastructure of nations—mass transportation, power generation and distribution, water management, reforestation and similar environmental improvement programs; a post-1973 general global collapse of health-care systems; a post-1963 degeneration of educational systems of Europe and elsewhere, motivated by the OECD report of 1963. Many parts of Europe have lost the ability to think—or to eat.

Thinking of the Future

What has happened to a generation that has been victimized by this, the adult generation, was a change in the moral character of society. In all my experience, and my knowledge of history, prior to the counterculture movement of the 1960s, the tendency in society, the practical, moral tendency within the population, was that the existing adult generation would think in terms of their children's and their grandchildren's generations.

The cultural change to a consumer society from a producer society, combined with the counterculture, produced what we call today the "Now" generation. As a result, the generation of younger people—and I am working specifically with a generation between 18 and 25 years of age, the so-called university-age generation—is a "No-Future" generation. They think they have no future, or they have a shallow hope that they might have a future, as an exception to what is happening to everyone else in their generation.

This has an effect on the political systems. People, say, between 50 and 60—who are now becoming dominant in running the institutions of society—they reflect an indifference toward the future. They think about the short term, the now. There is no significant long-term thinking in that generation, and the younger generation, which will be the future, sees itself as abandoned.

So, therefore, as we enter a great crisis, the political-party systems in which we had confidence in the 1950s and 1960s, have become ineffective.

We have now entered a great collapse crisis of the present monetary, financial system. This is extremely dangerous. You have a political system that is not working because of this "Now" generation/"No-Future" generation problem.

Great masses of the poor, those below the lower 80% of family-income brackets, are abandoned, and feel themselves abandoned. This is extremely dangerous. This is the kind of circumstance under which dictatorships arise.

We have now, as a result of this—and I speak frankly—a man, who is President of the United States, who I don't think knows how to think, who is controlled like a puppet by a pair of conspirators typified by the Vice President, which is very much a minority.



The Chamber of Commerce of Vicenza, a productive and technology center of Northern Italy, invited Presidential pre-candidate Lyndon LaRouche to keynote its May 5 conference. Chamber representative Sgr. Bisortole is at left; LaRouche's translator Claudio Celani and Italian representative Paoli Raimondi are at right.

There is no support for this government in the majority of the Republican Party or the Democratic Party. It is like a coup d'état. It tries to preserve its power by shooting for wars, as distractions from an economic crisis they refuse to deal with.

So, therefore, where is the reason for optimism?

We have, in Europe, good reason for optimism about the possibilities for the future. We have a resistance to this war, which involves Russia, Germany, and France, in the United Nations. Various meetings held in St. Petersburg, among representatives of these countries, typify an intention to move toward some form of beneficial cooperation.

At the same time, the great opportunities for Europe, which is bankrupt under the present system — Europe can not continue this way — lies in Asia. The greatest population centers of the world and the greatest areas of growth lie in South, East, and Southeast Asia.

Eurasian Cooperation and Technology-Sharing

On the one side, Europe, to survive, needs those markets. On the other side, Asia, most notably in the case of China, requires the technology-sharing, which enables it to deal with its internal problems.

You have in Asia — you have in China, Russia, Kazakstan, included, as a partner, and in India — you have the immediate basis for developing a system of cooperation, security, and stability. You have the beginning of large-scale cooperation between this group of nations and the so-called ASEAN group of 10 nations.

The greatest water projects in modern history are under discussion, or are already in progress, in this part of the world.

The water-management projects in China are beyond anything we've seen in Eurasia before this time.

The hydro-electric project in Tibet, using the Brahmaputra to develop energy sources for China, India, Bangladesh, and Myanmar, is already being seriously pushed.

If we succeed in the policy effort launched as the so-called "Sunshine Policy" by South Korea, we will have, also, another factor, called the North Asia factor: the railroad systems of Korea, if you unite Korea's railroad systems, going two directions. They start from the southern tip of Korea in Pusan; as they go north, they bifurcate: One goes to China, one goes to Siberia; which means, that if you link up these systems, if you repair the trans-Siberian route, if you complete the Silk Road route, then, you can have high-speed freight transport from Pusan to Rotterdam, and so forth.

Now, there is another problem in this: raw materials. That is, the raw materials of Asia are, to a large degree, concentrated in Central and North Asia, in a part of the Biosphere which contains a lot of these minerals. The central part is largely arid. The northern part is Arctic tundra. There are vast amounts of water going by rivers, such as the Ob, into the Arctic Ocean. The diversion of some of that water south would transform Central Asia.

In Russia, the technologies for working in the Arctic have been in progress for some time. We can conquer the tundra as a matter of economy. With high-density energy systems, we can conquer the tundra.

Therefore, what we need is not merely a transport system from Europe to the Pacific; those transport systems must be routes of development, the way we did in the United States with the transcontinental railroads.

New cities, power projects, water-management projects, production projects, shifts of population into the newly developed areas. That will permit us to conquer the territory economically, where the largest resources for the future lie.

Now this is in the interest of Europe. It is in the interest of Asia. This involves, not export of products, but, as we see in the case of Germany's sale of maglev technology to China, the future lies in technology-sharing. The great export industry for Europe is technology-sharing export.

The heart of this will be, to a large degree, the independent medium-sized and small businesses. What is needed, is to set up mechanisms under which we can integrate the potential of what we call in German, the *Mittelstand* layer of Europe, to integrate it efficiently as a partner in a long-term process of technology-sharing.

This means, practically, more immediately, more channels of discussion between people in Europe and people in Asia. You know how technology-sharing works, you have already experienced it in various approximations.

The Obstacle of Financial Collapse

But the difficulty in bringing the partners together, if the partners are individual small or medium-sized firms, is obvious. Facilities of discussions and explorations are essential, because what Europe needs is an increase of productive employment sufficient to allow the countries of Europe to operate at a real breakeven level, physically.

For example, if Germany fails to increase the number of employed people by 3 million employees, it is a disaster for all Europe.

Similarly, in the United States, we have 50 Federal states in the United States. Forty-six are bankrupt. That is, they can not maintain essential functions on the basis of states in the United States. If you use so-called fiscal methods of austerity, you make the problem worse. You raise tax rates on the lower levels of income and production—you make the problem worse.

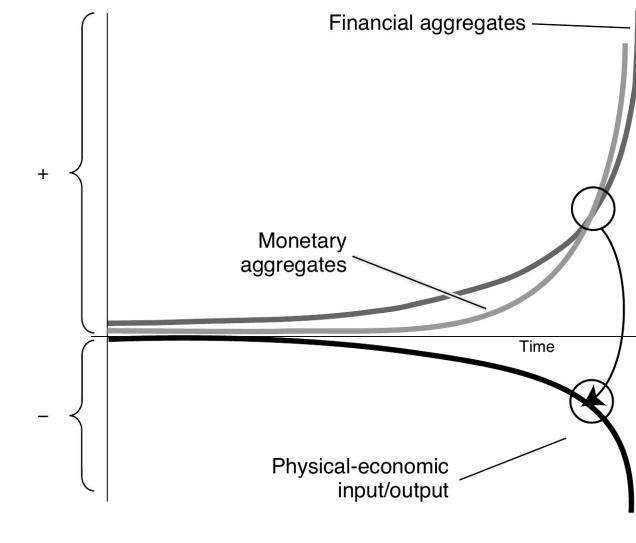
So, the problem is, as in Europe, the need for large-scale infrastructure projects of an essential character, which will raise the employment levels. In the case of Eurasia, it is cooperation throughout Eurasia, which gives the impetus for large-scale projects. . . .

The obvious infrastructure thing, which includes the Messina Bridge, is the connection to Africa. Immediately, North Africa, the traditional route. Italy is, economically, a maritime country. The coastal area relative to the habitable land area is very large. It is surrounded by the Adriatic and the Mediterranean. It historically has always been a crossroads to the Middle East, as to North Africa.

So, therefore, if you have cooperation in long-term economic objectives, then you have the need for, and the motive for, developing the infrastructure systems, which will develop the internal parts of the country.

We have similar situations in the Americas between North

FIGURE 1
The Collapse Reaches a Critical Point of Instability



and South America. The physical opportunities for great rates of growth are there. The problem is the present monetary system, financial system, and the problem is this shift from a producer society to a consumer society mentality.

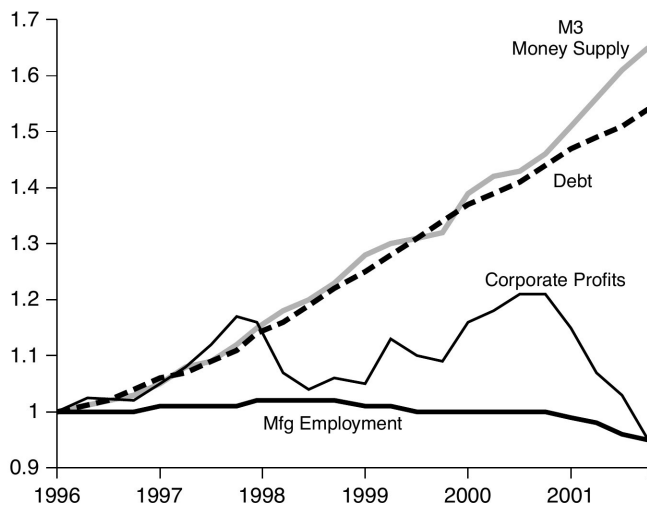
History of This Monetary System

So, just look again at this chart (Figure 1), which I've used many times, but just to make the point clear. What this is, is a pedagogical outline of the economic history of Europe and the Americas, especially, since 1966.

The U.S. government budget and policies of 1966-67 fiscal year were a turning point in U.S. internal economic history. If you take what was happening in England under the first Harold Wilson government, a terrible process of wrecking what remained of the economy was launched. This spread throughout the British Commonwealth system. This was accelerated by 1971, by the change in the monetary system. This went along with the destruction of the economy through 1981.

It occurred the following way: The United States made a stupid turn, in dealing with the collapse of the Soviet system. We should have, as I proposed in 1988, before it collapsed, knowing it was going to collapse, we should have gone in with what I called a "Food for Peace" program. Since I had studied it, and had known the reasons for the Soviet collapse, I had warned that it was going to occur. I knew the potential, economically, in that area, under certain reforms. Instead, what happened was, the United States looted the former Soviet system. The so-called prosperity of the 1990s was largely based on looting the former extended Soviet system, including Eastern Europe. In 1996, this reached the breaking point.

FIGURE 2
The U.S. Economy's Collapse Function Since 1996



Source: EIRNS.

You had the speculators, in 1996 and 1997, rush into a hedge-fund looting of Asian nations. We exported the disease, and sucked the blood of Asia, and called it an Asian crisis. After 1997, Russia was also at the limit of its ability to sustain this kind of looting.

The 1996 re-election of Yeltsin was the beginning of the end of the Yeltsin system. The last gasp was done with the hedge funds again, in floating a phony bond called a "GKO." In the middle of August 1998, the GKO-bond system collapsed. They were faced, then, with an immediate next crisis in February 1999: the Brazil crisis. The Brazil crisis threatened a total collapse of South America—which we have seen in the case of Argentina, which has threatened Brazil.

In anticipation of this, President Clinton announced that he had planned to make moves toward a reform of the international monetary system—this was in September of 1998. He was attacked with a scandal, which was used to try to impeach him, to get him to stop doing that—the usual way of making a coup d'état with a scandal. It didn't work, but it weakened Clinton greatly. As a result, in October [1998], at the Washington monetary conference, certain insane policy decisions were made, out of desperation.

The policy, then, was the "wall of money" policy. That is, to print more and more money, using new means, made possible by electronic monetary emission. The rate of monetary inflation in the system now is greater than it was in 1923 Germany. That's why I put this chart on (Figure 2), to illustrate what our present problem is. In the Spring of 1999, our statistical studies of this process showed that the rate of mone-

tary emission exceeded the rate of financial rollover. This is what happened in Germany, between June and November of 1923.

Now, the first question in my mind was, is this a temporary phenomenon, or a permanent one? By the beginning of 2000, it was obvious that it was permanent. It was a systemic structural feature of the system, as it was then operating.

The system is finished, which is why I was able—when this funny thing, Bush, was inaugurated—was able to forecast exactly the kind of thing that would happen under Bush: the collapse of the system, and an incident like the Reichstag Fire of 1933.

Remember, on Feb. 27, 1933, Hermann Goering set fire to the Reichstag. On the 28th of February, Hitler was declared dictator.

On the 11th of September 2001, the attack occurred by aircraft on the buildings in New York and the Pentagon. Vice President Cheney emerged immediately, with a program he had had since 1991, for a war in Iraq, for general dictatorial measures of so-called "security" inside the United States, and so forth.

That's the reality we are living with.

Now look at the other part of the curve, the down curve. Over the period from 1996 to the present, while there has been growth in financial aggregates—actually hyperinflationary growth in financial aggregates—there has been a decline in the net physical output, per capita and per square kilometer. This is clear if you use actual proper deflationary figures, and if you take into account the loss of economic potential represented by loss of basic economic infrastructure.

A Great Opportunity for a New System

So, we have reached the point where it is not possible to reform the present system. Therefore, as I indicated earlier, on the optimistic side, the nations of the world have before them a magnificent opportunity, especially in Eurasia, for great growth. Under any rational monetary-financial system, there should be great growth. If we could operate, even under the rules we used between 1945-46 and 1960, we would have great growth.

The model of postwar reconstruction is an ideal model of growth. The problem is, that you can't do it under this system, because the amount of financial debt and monetary debt on top of the production is so high, that you can not pay the financial charges. You can not grow to pay off the financial charges, because there is no capital to invest in things that are productive.

Therefore, the world is bankrupt. What do you do with a bankruptcy? You go to government, and you put the bankrupt institution into receivership. You put the monetary system and the financial system into receivership. You reorganize the system to save "the baby." If we were to do that, we could survive. There are things that we could be trying to do now,

which, were we to do that, we could survive. Improvement of east-west trade in Eurasia is a good idea. It is what you have to do. It should emphasize technology-sharing, rather than simple exports, but we can not continue that unless we put the system into bankruptcy.

What do we need? Put the system into bankruptcy under the general welfare principle. Then what do you do? We have to establish agreements of the following form: The governments, which must take over the financial systems and the central banking systems, must move to establish a fixed-exchange-rate system. It is the only way you can do it, because if we can not have 1-2% maximum rates of interest on long-term loans, we can not finance our way to recovery. And, you can not maintain loans at 1-2% simple interest rate under a floating-exchange-rate system.

Now, how does it work? You have to create credit. How do you create credit? In the United States, by our Constitution, we can create credit by fiat act of government, with the approval of Congress. Under the existing systems in Europe, which are based on the Anglo-Dutch Liberal model of the state apparatus of the parliamentary system and the central banking system, measures have been taken to prevent that from being done. The *fondi* won't allow it. So, the other way to create credit—you can't use the Keynesian system under this condition—governments can make long-term agreements with other governments on trade.

So, a regulated fixed-exchange-rate system, with long-term agreements, 25-50-year lifespan, on tariffs and trade and investment—these kinds of things are what you need, to have a rapid expansion of what the potential in Eurasia, for example, represents.

So what does an optimist do in a situation like this? And, there is no sense in being a pessimist. In addition to all your other troubles, you'll feel miserable. The only thing to be is a wise optimist.

So, in the matters of business and economy, think of the long term of where we should be going; try to move in that direction any way you can, at the same time, knowing that the governments can not solve the problem that they have with their present ideas. We are going to come to the point where the governments are going to have to change their way of thinking. They are going to have to be realistic about this crisis. Then, they are going to cry, "Come save us!"

And the only thing that exists for us that we can get agreement on, is the historical precedent of postwar reconstruction, as between Europe and the United States.

What we had then, worked. What we have had since 1971, did not work. You tell the man to stop going to the gambling casino, and go back to work. The connection between the two is the spreading of those ideas, political and other ideas, which will make it possible for us to make the connection between the two things.

Study for survival and qualified success within the terms available. But you can't swim across the ocean. Build a boat.

Dialogue With LaRouche

The Dollar's Fall, the World Economy's Future

Lyndon LaRouche's May 5 presentation was co-sponsored by the International Strategic Economic and Scientific Institute (ISIES), an offspring of the Vicenza Chamber of Commerce and Industry. The audience of 50 engaged the Presidential pre-candidate in a two-hour discussion, of which an edited transcript follows.

Italian Parliamentary Deputy Luigi D'Agro began the discussion by reiterating his support for the Chamber of Deputies' resolution for a New Bretton Woods monetary system, instigated by LaRouche's ideas, and adopted by the Chamber of Deputies on Sept. 25, 2002. Senator Oskar Peterlini is now sponsoring a New Bretton Woods resolution in the Italian Senate. Deputy D'Agro attacked the rampant financial speculation dominating the world economy and causing the collapse of production; and asked LaRouche to comment on the moral purpose of economics, specifically citing the task of peace and development in the Mideast.

LaRouche: The interest of Italy, among other countries, is to try to get some kind of pacification, and development, cultural development, in that region of the world, which pacifies it, and makes it what I proposed in an Abu Dhabi speech I gave: To see this area of the world as the crossroads between the Mediterranean and the Indian Ocean.

I don't believe in burning oil for fuel. The problem that leads us to idiocy, is this ban on nuclear energy. And what's happened is that the discussion of energy, especially over the period since the 1970s, has been increasingly idiotic, scientifically. And this is something that goes to the second question you raised, the purpose of economy, the moral, political purpose of economy.

Humanity's Powers and Nuclear Power

Let's go back to the beginning of our civilization. We are a European civilization, globally extended, primarily Europe and the Americas, with great impact on the cultures of the entire world. Our origin is probably Egypt. Our beginning is Greece, Homeric Greece perhaps. That's the beginning. We date our civilization generally from Solon of Athens. The design of the Constitution of the United States, especially the Preamble, was based on Solon of Athens.

In ancient Greece, science, before Euclid, was based on a concept of power, as the concept is used by Plato. The concept of power is valid in modern scientific terms. Whereas the contrary concept, which was introduced by Aristotle, against