dom," who wrote that every human being has the potential to develop to become a beautiful soul. A beautiful soul is a person, who has educated his emotions to be on the same level as reason; for passion and duty, freedom and necessity, are one and the same thing. A beautiful soul will always act on the level of the sublime, as if by instinct.

It seems to me that, given the axiomatic importance of the idea of the image of man, for all the other assumptions man develops in this world outlook, the dialogue of cultures and civilizations should start with trying to establish the highest ideal of man, that which is universal about him, and then look for corresponding concepts and ideas in each of the cultures.

When man is generally accepted as the only cognitive of all living creatures, a major step has been taken to lay the foundation to create a new renaissance, which the world urgently needs. And it must be especially the youth, the young people of the different cultures, who lift the dignity of man on the highest pedestal ever. If the young people of all countries relate to each other, referring to the best traditions of their respective cultures, then mankind will have overcome its infantile stage.

Economic Workshop

FDR's New Deal Is Key to Today's Financial Crisis

by Helga Zepp-LaRouche

To the workshop on economic questions of the Prague conference, on May 6, Mrs. Zepp-LaRouche gave this presentation, "A Policy in the Tradition of Roosevelt's Global New Deal As the Way Out of the Systemic Financial Crisis."

Especially in a moment where the integration of central European nations into the European Union gives rise to the hope of their respective peoples, that the circumstances of their lives will improve—and the desire to hear "bad news" is not exactly great—I feel that it is my duty to warn the participants of this conference concerning looming dangers in the global financial system, that will greatly effect the economic situation in Central Europe. But I want to emphasize at the beginning, that a positive solution is absolutely possible, and that there are several historical precedents which we can resort to, at least in principle.

Even if this is not admitted publicly, behind closed doors there is a very far-reaching agreement among members of governments and executives of leading banks and insurance companies, that the global financial system is finished. The more informed of those executives are in a state of panic, that not one new "LTCM"-like crisis is threatening, but many new LTCMs. About the bankruptcy of the largest hedge fund in 1998, which at that time could only be bailed out by the 16 largest banks of the world, the BIS [Bank for International Settlements] had admitted in their annual report of that year, that what was at stake was the complete meltdown of the global financial system.

In its first quarterly report of this year, the same BIS, known to be an extremely conservative institution, warns of the extremely dramatic situation concerning all aspects of the financial system, implying, although in the typical bankers' language, that all bubbles of the system could blow simultaneously—ranging from the stock and bond market bubble, volatility in the foreign exchange markets, unsustainable mortgage and consumer debt, to skyrocketing volumes of derivatives—amounting together to a systemic risk of unprecedented proportions. The reality is, that the derivative bubble alone has reached an order of magnitude more than the world's GDP. . . .

Bush's Big April 2 Fraud Backfired

In the short-term, it was the absolute intention of the Bush Administration and Federal Reserve chief Alan Greenspan, to postpone the blowout of the system under all circumstances until after November of this year, in order not to wreck the re-election chances of this administration; so the low-interest rate level was supposed to be kept, despite some warnings such as those from Fed governor Poole, that inflation could become a very serious problem, and when it had become visible, it would be too late.

When in September 1998, the LTCM collapse occurred in the wake of the GKO-crisis and the de facto bankruptcy of the Russian state, rather than working on a "new financial architecture" President Clinton spoke about in front of the Council of Foreign Relations in that month, the international financial institutions decided to prevent any major bankruptcy with a "wall of money," meaning the massive pumping of liquidity into the system, whenever needed. The negative interest policy of the Japanese Central Bank was part of this "Washington Consensus," feeding, via the "yen carry trade," various bubbles in the U.S. markets. For the immediate crisis management, there was the "plunge protection team" in the form of a group of investment banks which would intervene, pumping liquidity whenever a problem loomed.

Until early April, the markets generally assumed that the Federal Reserve's prime rate would remain at ultra-low levels for a long time to come. Investors were hoping for giant, almost risk-free profits for banks and hedge funds. They could borrow from the Fed at 1.0% interest rates and then invest the money into high-yield U.S. Treasuries, corporate bonds, emerging market bonds, stocks, and commodities.

But with things not going so well for Bush in Iraq and in

Mrs. LaRouche talks with other participants in the Workshop on Economic Questions at Prague on May 6. She told the workshop that a U.S.-centered financial crash was at hand, but that such a crisis could also become the opportunity for a more just world economic order, if national leaders organized the New Bretton Woods strategy of U.S. Presidential candidate Lyndon LaRouche.

the real economy in the United States, somebody concerned with the re-election campaign wanted to create some "good news." So the Labor Department announced on April 2 a "job recovery"; namely that 308,000 new jobs had been created during March. (A closer look at these statistics reveal that seasonally-adjusted employment actually declined by 3,000 jobs in March.) However, this announcement and subsequent, surprisingly "good" retail figures on April 13. caused a (very brief) stock market surge, thus causing a fall in the bond prices, pushing their yields up accordingly. On April 14. yields of 10-year U.S. Treasuries reached 4.44%, thus 79 basis points above the mid-March low of 3.65%. European and Japanese bond markets were affected as well. This manipulation of the labor statistics for electoral reasons triggered the disconnection of the very sensitive relation between the stock, bond, and derivative markets, thus increasing the volatility between all bubbles. Also, upward changes in the bond yields directly affect gigantic volumes in financial derivatives. According to the BIS estimates, the derivatives trade reached a daily turnover of $870 billion, not counting the so-called OTC derivative contracts, whose real volume is anybody's guess.

The release of a much higher-than-expected 0.4% increase in March [U.S.] consumer prices (not including food and energy) caused a sudden speculation that the Fed would raise interest rates much earlier—maybe already in August—sending panic in the markets. It is generally acknowledged that already a very small interest rate increase will tend to cause the house-price and mortgage bubble to burst, causing yet another multi-trillion dollar asset evaporation, as happened in March 2000 with the "new economy" bubble's bursting. The international financial system can actually be compared with a mine field, where if one steps on one, the likelihood that the cluster risk will cause a detonation of the entire field, is extremely great.

Factors of the Breakdown

For time reasons, I can only reference other elements of this systemic crisis: the unsustainabilty of the United States' deficits—trade, current account, and budget; the U.S. indebtedness in all categories; the debt crisis in general; the potential unwillingness of Asian countries—with a total of $1.3 trillion reserves—to keep financing the dollar and the U.S. deficits; etc. Other elements are the increasing confidence crisis in the top managements, given the criminal practices of those at Enron, World Comp, Parmalat, Royal Dutch Shell, to only name a few. The Iraq fiasco is another factor contributing to the confidence crisis in the Bush Administration.

It must be emphasized, that this systemic crisis is not the result of any recent mismanagement or cyclical event. It is the result of a paradigm shift in the economies of the G-7 countries, which has now been underway for almost 40 years. In the middle of the 1960s, a transformation occurred, changing the industrial economies of the United States, Western Europe, and Japan, step by step, into consumer societies; replacing, more and more, the focus on the production of real physical goods based on a high scientific and technological standard, with the utopianism of the post-industrial society and speculation. Not scientific excellence, high morale in the work process, and long-term concern for the common good of society; but short-term profit in the "shareholder society," outsourcing in cheap labor countries, IPOs, and the idea that not work and investment bring income, but money makes money. Those who still work themselves, are actually idiots; the clever ones go into speculation—the higher the risk, the higher the profit. A "robust appetite for risk" developed, as the BIS calls it euphemistically.

When the economies of the former COMECON countries collapsed, my husband, the American economist Lyndon LaRouche, warned that if one would superimpose on the bankrupt communist economies the equally bankrupt free trade economies, that after an initial period of looting, the general collapse of the entire system would be even bigger. I presented at that time a plan, in many conferences in eastern and western European capitals: How the economies of the COMECON states—only obsolete from the standpoint of the world market, but not from the standpoint of physical economy—could be transformed in the development of the urgently required infrastructure.

Unfortunately this plan, the "Productive Triangle Paris-

Berlin-Vienna, which included Czechoslovakia, was not adopted; instead, Jeffrey Sachs' "shock therapy," the "Polish model," and the structural reform program of the IMF, was adopted. What was hiding behind these nice words, was the geopolitical design to turn especially Russia, after 1991, into a raw materials producer, and eliminate its future role as a potential superpower forever. With the disappearance of the Soviet Union, globalization could go into its final phase, and the same kind of "primitive accumulation" which had previously looted Africa, Latin America, and parts of Asia, was applied to the economies of the former COMECON.

But in today's world economy, which has been turned into a world casino, *rien ne va plus.* At this point, there are only two alternatives on the table as to what to do when the crash hits, which could be very, very soon. Either—and this is being actively contemplated by certain bankers, economists, and politicians—the governments try to save the banking system at the expense of the living standard of the population, through brutal austerity in the tradition of Hjalmar Schacht; or—and this proposal is also on the table in many countries—a solution is implemented in the tradition of Franklin D. Roosevelt.

Just to mention it very briefly, austerity, "saving," does not work. Especially under the double conditions of a global depression, and a world financial and currency crisis, the normal "market mechanisms" don't work. Cutting taxes, for example, does not encourage investment and consumer activity, when people have anxieties concerning their workplace, the security of their pensions, and rising health costs. Cutting, especially, the state budget doesn't work either, because with each cut the state eliminates work places and productive capacities; subsequently the tax income shrinks; and in the next round, the hole in the budget is worse, so one has to cut more, etc. It is a spiral downwards without a bottom.

Roosevelt: 'As . . . the Emergency of a War'

On the contrary, Roosevelt proved with his "New Deal" that with dirigist measures in the tradition of the "American System" of the first American Treasury Secretary, Alexander Hamilton, it was possible to pull the United States out of the Depression. Roosevelt simply went back to the American Constitution with its General Welfare Clause, and under the extremely difficult condition of a banking collapse, a physical economic depression, and a very depressed living standard of the people, he took measures to get the economy going again. These were far more than technocratic steps, they were guided by the Leibnizian philosophy embedded in the U.S. Constitution.

In his First Inaugural Address on March 4, 1933, he stressed: "So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance. . . . The money-changers have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere money profit."

He then elaborated the inalienable right to the pursuit of happiness, stated in the Declaration of Independence, which is not Lockean hedonistic pleasure-seeking, but the Leibnizian idea of a fulfilled and cognitive life. "Happiness," FDR said, "lies not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort. Our greatest primary task is to put people to work. This is no unsolvable problem if we face it wisely and courageously. It can be accomplished in part by direct recruiting by the government itself, treating the task as if we would treat the emergency of a war."

With this attitude, he proceeded to impose supervision of all forms of transportation, communications, and utilities, such as energy, which "have a definitely public character," such as strict supervision of all banking and credits and investments. He got large infrastructure programs going, both hard and soft, such as the Tennessee Valley Authority, that produced an impressive increase in the rate of productivity of both industrial capacities as well as the labor force. It built abundant hydroelectric power, flood control, river diversion, improvements in agriculture, and new industries. It improved education, eradicated malaria, and employed large numbers of people.

The government employed millions of unemployed, primarily for the construction of infrastructure. This put in motion the so-called "multiplier effect"; the large volume of goods needed for the infrastructure projects required increased production in previously idle factories; the entrepreneurs participating in the projects had more money, could hire more people; those now employed had more buying power, spent more on food, housing, etc. So the whole economy got revitalized.

In order to finance all of this and to ensure credit flows into the economy, Roosevelt used the Reconstruction Finance Corporation as a Hamiltonian instrument, which issued the required credit. Through a whole series of regulatory measures he took control over the banking system and shifted the economy from speculation to production. He took care of the "forgotten man" by improving the social system. All these measures together are what is known as the "New Deal"—which Roosevelt planned to advocate, after the war, for the whole world. Had he not prematurely died, postwar history would have taken a different course.

The LaRouche New Bretton Woods

Today, these policies are being represented in even a more scientifically-based way than was the case for Roosevelt, by Lyndon LaRouche, Democratic Presidential pre-candidate and the only serious rival to John Kerry. Mr. LaRouche has an impeccable record concerning his economic forecasts; he was often the only economist, during the last 45 years, to foresee crucial paradigm shifts in the economy and describe their consequences, if pursued further. His proposals, for which there is in the meantime a significant international following—for example, in the Italian Parliament—are briefly as follows.

Very soon, or at the latest, when the inevitability of the global systemic crash is evident to all, there must be—on the level of heads of state—an emergency summit in the tradition of the Bretton Woods Conference of FDR in 1944. The conference must then proceed to declare that the present international system has to be replaced with a new one, which however can adopt the best features of the old Bretton Woods system as it existed in the first two decades of its existence, correcting certain unjust features it had concerning the developing sector. The largely unpayable debt of the global system must either be cancelled or reorganized. The derivative speculation must simply be taken out of the system by agreement between the governments.

There must be a return to a fixed-exchange-rate system, since no long-term international investments are possible otherwise. And most important: The credit generation must be brought back under the sovereign control of national governments. For this purpose, each country should establish a national bank: either as a Hamiltonian national bank; or like the Kreditanstalt for reconstruction in Germany in the postwar period; or as a Reconstruction Finance Corporation, which can issue not money, but credit lines for the reconstruction.

These credit lines must be highly regulated, they must be, in volume, bound by the need to create productive full employment, and must be limited only to those kinds of investments, into which one would invest if the economy was functioning very well. The most obvious areas for such investment are large-scale infrastructure programs, research and development, and other areas, which increase the productivity of the economy and serve the common good. The Tremonti Plan is a step in the right direction, but a much larger volume of credit generation is required.

The obvious focus for such large infrastructure investments is the construction of the Eurasian Land-Bridge. The industrial centers of Europe must be connected with the industrial and population centers of East and Southeast and South Asia, through so-called development corridors. Starting with the old transport lines—the Trans-Siberian Railroad and the old Silk Roads as the first three corridors—all of Eurasia should be infrastructurally connected through an integrated system of high-speed railroads, highways, waterways and computerized stations. Along these transport arteries, approximately 100 kilometer-wide corridors should be developed, in which there will be power generation and distribution and communication, creating ideal conditions for the development of industry and agriculture, as well as new cities.

Key to the success of this program is the following. If the world is to come out of its present crisis, we must replace the paradigm currently underlying all policies. We must say goodbye to the ideas of free trade, quick profit, shareholder value society, outsourcing, cheap labor, etc. We must conceive of the transformation of the Eurasian continent over the next 25-50 years—namely, one-two generations—because that is the time needed to develop a newborn baby into a productive engineer, scientist or skilled laborer. The purpose of this approach is to increase the productivity and buying power of the respective people. And also, to create for the landlocked areas of Eurasia the same infrastructural advantages, which previously only countries, with access to the oceans and the rivers, had.

Path to History's Biggest Boom

This program, which we proposed first in 1991, and about which we held hundreds of conferences all over the world, is being realized in many aspects. For example, the "Sunshine Policy" of the South Korean Government is part of it; the intention of China to develop its western regions is part of it; or the decision of India to integrate and develop its river systems. But what is needed now, is a vision, a comprehensive program, which unites all the different aspects into one Eurasian overall development perspective.

This program will pay for itself; it will pay for itself in the same way, the industrialization of Europe, the United States, or Russia in the 19th Century paid for themselves, in simply increasing the tax base and the buying power of the population over long periods of time. It can be proven with historical examples, that the wealth generated with this approach, far exceeds the volume of the initial credit lines. If we build the Eurasian Land-Bridge, it will lead to the biggest boom in world history.

This is neither market nor planned economy. The concept of physical economy in the tradition of Leibniz, Hamilton, List, Carey, Count Witte, and LaRouche is based on the fact, that the only source of wealth in society is the cognitive power of the individual. It is that quality which uniquely differentiates man from all other creatures: his ability to again and again develop adequate hypotheses about the laws of the physical universe, which lead to scientific progress which, if transformed into technologies and applied in the productive process, leads to an increase in the productivity of the economy. And this in turn, leads to an increase in the living standard of the population.

Therefore, it is in the interest of every government devoted to the common good of its people, to further and nourish these cognitive powers of its children, its youth, and its people in general in the best possible way, because that is at the same time the source of wealth of the society at large.

There is no question that the world faces a severe crisis. But solutions are at hand. And as the Chinese character for "crisis"—which is the same as for "chance"—implies, maybe we can take the coming events as the welcomed opportunity to create a more just and humane world economic order.