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Prof. Jaroslav Jirasek

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## Study the American System of economy

*Professor Jirasek is honorary dean of the Czech Management Center in Celakovice, and an adviser to the president of the Czech Management Association. He has participated in several missions of Czech entrepreneurs to the United States and Asian countries. The following are his remarks at the CMA-EIRNA-Schiller Institute press conference in Prague on May 13.*

I should perhaps explain the role of the Friedrich Schiller Institute, and why this institute bears the name of Friedrich Schiller, whom we know as a unique poet and playwright. If such an institute focusses on the global and general problems of the world and civilization, we should perhaps be aware that Friedrich Schiller also is known as a philosopher, and he may also be known by his famous quote, that truth very often triumphs through morality and beauty.

The Schiller Institute also draws on the findings of the famous philosopher G.W. Leibniz, known as the inventor of the theory of the monad concept, as well as an expert in the field of mathematics. Yet, it may be less well known, that he was the first person who focussed on the role of the individual in society, as well as on the individual's freedom.

It is an amazing experience to see experts arguing on both scientific and artistic grounds, and, indeed, we would find no comparable institute in this country.

Another significant asset of the Schiller Institute is the fact that it promotes knowledge based on the economy of the American Revolution, that is, the physical or material side of the economy, focussing on the *real* developments in the field of industry, agriculture, and infrastructure. It is not so well known in this country, what contribution the American Revolution had made to worldwide economic theory, and indeed, this theory would help us to understand the low rate of growth that we are seeing. This is the economy based on the theories of Alexander Hamilton, Friedrich List, and others, which run counter to the traditional British economic theory based on the thinking of Adam Smith and others.

I should perhaps emphasize, that this American Revolution economics basically denied the heritage that we are now espousing [i.e., globalization]. And, indeed, it focussed on the fact, that between the spontaneous forces in the economy, or the private forces, there should also be some kind of central

or national forces, and very often they emphasize the role of state influence in the overall national economy. And, unfortunately, hardly any of us know about the contributions Alexander Hamilton made to worldwide economic theory; we might know him only from the novel of Aaron Burr, who shot Hamilton.

The Schiller Institute focusses on the global problems of today, one of them being how to get out of the current worldwide financial crisis. We had heard about the causes of the current crisis, highlighting especially the fact that the financial market developments are divorced from the reality of physical economy, and this was described with the triple collapse curve of economic indicators. If we take global production as one unit, we can see that the worldwide trade value is about twice that amount, yet the total volume of financial transactions is 15 to 20 times higher. So, we can see how financial indicators are divorced from physical economic reality.

### The economy could collapse any day

We do not focus very much on these aspects in the Czech Republic; yet, we see how almost ridiculous the economic analytical forecasts are. The situation might change very quickly, and none of us can predict what might happen in a few months' time. Our national bank is well aware of the fact that most professionals speculate and bet on the general decline of the financial economy, and that is why it has implemented measures to protect our currency and to adjust interest rates accordingly. I use this as an example only because the huge bulk of finances that are available in the world, can cause a collapse in our economy on any day.

The current crisis started in Asia, moved over to Russia and South America, and I believe that it is going to proceed to Europe and finally to the States, where we shall see the strongest defense against that crisis. But, I believe that this defense is not led by governments, but rather by strong financial groups, and indeed, there are also gains to be talked about in that respect.

Therefore, the market has started trading in derivatives, where in fact you do not trade with any real goods, but rather with nothing but speculative indicators. We might, for example, make a bet with our friends on how high oil or wheat prices will be next June; yet, the winner is not the person who is better at forecasting these developments, but rather the one who is best at *influencing* them.

Among the main themes the Schiller Institute has focussed on is also the creation of European and Asian infrastructure, incorporating the countries of Europe, as well as Russia, China, India, and others, along what Marco Polo discovered as the silk trade routes. Nowadays, these routes should be represented as highways or rail routes.

### Two approaches to globalization

I believe that the dominant trend in the physical economy nowadays is globalization. This is logical, because we are

better at using our resources more intensively, adding value or creating value at a much faster pace.

There are two approaches to this situation. The first is dominated by the focus on the physical economy and government cooperation, whereas the second one is focusing on deregulation, liberalization, and moves like that. The latter is the dominant approach in this country, and this is an approach in which not only the strongest always win, but also the weakest are in a rather difficult situation.

If you follow worldwide developments, and the search for what we call the new world order, you will have noticed that there are trends toward domination by the large countries, large economies, and forces trying to accumulate or incorporate the smaller countries, with some of their autonomy or assets protected. Yet, at the same time, they are being driven by the larger forces in the economic arena. Therefore, if we look at what the Schiller Institute, which is fighting inhumanities, can offer us in the fields of politics, philosophy, science, ethics, and aesthetics, we need to emphasize that it stands against conservative liberalism in the economy, which unfortunately is the theory that our country has espoused. And, therefore, even if the influence of the ideas of the Schiller Institute is limited today, we can only be inspired by them.

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Prof. Zbynek Pitra

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## We should focus on 'adding real value'

*Professor Pitra is Deputy Director of Sindat Consulting, and vice president of the Czech Management Association. He has taught in universities, and has worked for companies in the United States. The following are his remarks at the CMA-EIRNA-Schiller Institute press conference in Prague on May 13.*

Let me welcome you to this conference, and I do hope you will be taking away from this conference the feeling of hope that we get from our way of approaching current trends. Let me focus on the Czech Republic and the real problems that the CMA is currently encountering and trying to tackle, especially the revitalization of Czech industry. I believe that the situation of most of our companies is far from favorable, yet a local solution is not sufficient; we as well have to take part in the global economy, joining the fleet of the global economic drivers, to get ourselves through the crisis.

And I believe that where our country should participate is definitely not in the world of financial markets with derivatives, but rather in the world of real economics, as we have heard from the representatives of the Schiller Institute, as well as from Professor Jirasek. We should focus on the areas where *we can add real value*, thus changing the life of humanity for the better. And I am very well aware, that the CMA's representatives focus on the current task faced by the managers of companies, which involves value creation and looking at not only what we call "the invisible hand of the market forces," but also the real situation, trying to transform the forces into real value and real goods.

And therefore, our position, that is, the CMA's position, concerning the current governmental program on revitalization of industry, is as follows. First of all, we have several objections to raise: We believe that the government program is based too much on financial restructuring. And I believe it indeed is basically characterized by the delusion which we heard described by our guests, the delusion that a poor performance of companies can be solved through financial means. And, we have heard what this delusion caused in several more advanced economies: It led to a crisis.

Therefore, we believe that businesses are not entities which consume money, but are entities which create value, and therefore, the economic injection should focus not only on providing financial means, but on investment and produc-

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