Economics: At The End of a Delusion

by Lyndon H. LaRouche, Jr.

We publish here the Foreword to a Special Report on economic recovery policy from the current depression, and its crucial distinctions from the Great Depression of the 1930s; the Report is to be published by the LaRouche in 2004 Presidential campaign committee.

January 12, 2002

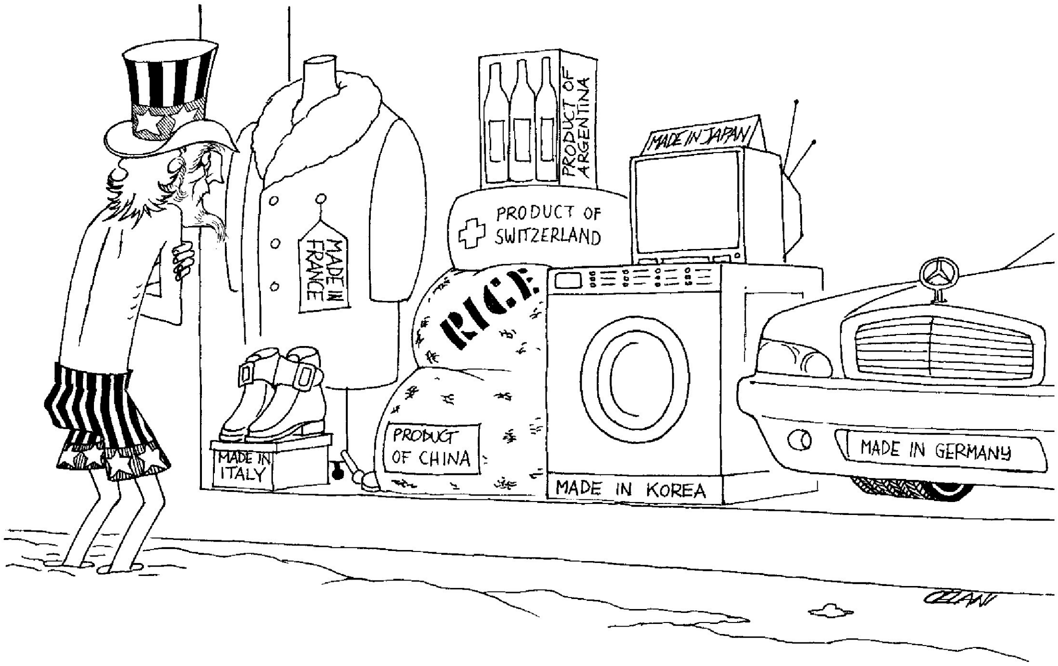
We could recover successfully from the presently deepening world economic depression, but only if we now choose to do so. It is Hamlet's challenge again: To be, or not to be. To accept the deadly heritage of our nation's recently habituated folly, or to free ourselves from the deadly shackles of prevailing opinion, that we might ascend to the sublime, and triumph over the fatal error of our recent times.

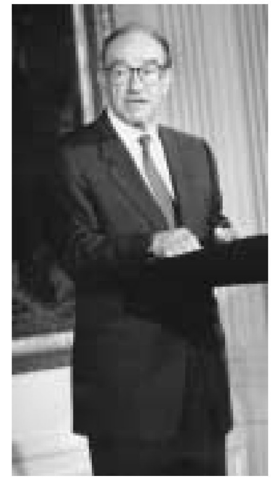
On the time-scale of history, the terminal moment of our nation's recent follies has now arrived. Now, if our nation is to survive, we must acknowledge, that the leading trends in policy-influencing opinion, over the recent thirty-odd years, have been cumulatively disastrous in their net effect. This is especially clear when the U.S. experience of 1966-2001, is contrasted with the effect of those different policies, which were characteristic of the earlier, 1945-1964 interval of post-war reconstruction.

We must admit, therefore, that, in this matter, as Shakespeare wrote, in another of his tragedies, the fault lies not in our stars, but in ourselves. The fault lies in the wrong-headed, chiefly post-1964 choice of the policies, which have become, during the recent three decades, the prevalent, accepted habits of belief and practice, among both policy-makers and the population generally.

Since the crisis-ridden 1962-1965 years, since approximately the time a post-Kennedy U.S.A. plunged deeply into its war in Indo-China, the world has drifted into a series of radical shifts in prevailing values of that moment,[1] a set of utopian

1. I have outlined the 1962-1965 interval, and its effects, in earlier locations, such as "Zbigniew Brzezinski and September 11," EIR, Jan. 11, 2002; and "The Continuing American Revolution," EIR, Jan. 18, 2002.





Federal Reserve Chairman Alan Greenspan at a White House Conference on the "New Economy," April 2000.

illusions, contrary to any long-term economic reality. However, since these illusions have become the axiomatic, even hysterical standard for setting economic and related policy, this cultural-paradigm-shift has acquired the character of an unfolding mass-delusion.

The economic collapse so induced, is not merely an economic collapse. It is not something the "outside world" has thrust upon us. It is a product of the delusion working from inside the minds of most of the population of the United States itself. What we are experiencing, is not an intrusion by unwanted events. It is a product of what have become our population's widely accepted beliefs. Therefore, what you are suffering today is, taken all together, the experience of living inside the fag end of a popular delusion.

We have, still, even at this late date, the opportunity to survive, but, if that is to occur, two conditions must be met. First, we must make the implied sudden, and radical, changes in the cultural paradigms governing our policy-making. Second, we must do this promptly, without whimpering delays.

Merely typical of the more recent trends of wrong-headedness of official and popular opinion, are the disastrous effects of the 1995-2001 delusion called "the new economy," or the widespread damage done to the economy, and the great and increasing suffering spread among our citizens, by such delusions as belief in "free trade," "deregulation," "shareholder values," "out-sourcing," and "globalization."

Pity the stubborn fellow who says that "we must fix the system," but, like the IMF's Anne Krueger, insists that he will not permit us to act contrary to those infectious delusions which have been, for more than thirty years, the continuing cause of the present crisis. Typical are those who now concede almost anything else, but insist that we must not depart from the bounds of that present IMF, "floating-exchange-rate" system, which has been, in fact, the chief, continuing cause of the world's onrushing monetary, financial, and economic disaster of the past thirty years! If we were to leave such still prevalent, pathological assumptions as that untouched, no economic recovery of the constitution of the present society would ever become possible.

I do not propose that we should return exactly to the previous, 1933-1945, or 1945-1964 policies. I offer a much more modest, and realistic proposal. We must learn the lesson to be adduced from comparing an earlier success, with a subsequent catastrophe. We must apply that lesson in ways which include discarding the worst of those presently prevailing beliefs which were widely popularized during the recent thirty-five years. We must build upon the recognition of those achievements of that 1933-1964 recovery and growth, which led us out of an earlier economic depression and the after-effects of devastating world war.

But, we must also go beyond those precedents, to add some improvements which were either lacking in the general policies of the 1945-1964 system, or are peculiarly appropriate to the changed circumstances confronting us as a result of recent decades' developments.

What This Report Contains

By the nature of the present world crisis, this report must include programmatic and analytic definitions of the problems and the methods of their solution. However, given the nature of competent knowledge of economics among legislators, economists, and citizens generally, the presentation of the essential elements of analytical and programmatic materials, must be supplemented by educational materials which are indispensable, if the reader is to achieve competent understanding of both the crucial features of, and solutions for this onrushing, global economic-social catastrophe.

If the reader is patient with me—when I am compelled to turn for a moment to relevant educational material which may, at some points, annoy him—we may hope that history will repay his or her courtesy to me, with the kindness of the benefit he or she will therefore receive from times to come.

The current stage of the world depression can be compared to a fire in a crowded theater. The economy in which you are seated, is that theater. Do not panic, but, rather, prepare to move, as I shall direct you, to the exits—that, in an orderly fashion, at a steady pace.

This present report, taken as a whole, includes contributions by EIR economics specialists Richard Freeman, John Hoefle, and other contributors; particularly their study of some of the presently most relevant features of the successful measures of economic recovery from a general depression, which were taken under the leadership of President Franklin D. Roosevelt. A review of crucial features of the Franklin Roosevelt approach to recovery, is being supplied by those specialists.

In my part in this report, my assigned focus is limited, as much as is allowable, to those other, presently most crucial, issues of scientific method, which were either not included in that President's approach, or are changes which have not been taken into account until now.

My part features certain key excerpts from among my original contributions to economics, excerpts which not only make it possible to explain the roots of the Franklin Roosevelt reform's success from a scientific standpoint, but which also identify those features which must be added to our present monetary, financial, social, and economic policies, if we are to bring a successful economic recovery into motion, under the specific circumstances of the present crisis.

Meanwhile, it is most important for the reader, that I emphasize that which recent developments have demonstrated, and that in the most dramatic way. My qualifications for speaking with such a tone of authority on these matters, are outstanding in the world today. What I have proposed are bold, sudden, but indispensable measures; therefore, they must tend to meet stiff resistance, unless the depth and extent of my authority in such matters were clearly stated. Therefore, I must emphasize, that more than thirty years of my consistently successful long-range forecasting, has settled factually the crucial questions of the dispute between me and my opponents. The experiment has been conducted, over nearly two generations, and the results are conclusive, in my favor.

For related reasons, my part in this report must include emphasis upon certain notable elements of analytical method, which are uniquely the fruit of original discoveries made by me in the specialized field of the Leibnizian science of physical economy.[2] The combination of the present world crisis, and the changes in the physical-economic conditions of the planet during the recent half-century, present the world with problems whose significance had been overlooked in earlier times. My own special contributions to the science of physical economy, are therefore an integral part of the new subject-matters which must be included within our nation's economic-policy deliberations.

Worse Than 1930s Great Depression

For example. For reasons to be considered in the course of my account, consider the following.

At the present time of accelerating world crisis, the reshaping of the interacting, but distinct factors in our national monetary, financial, and economic policies, must go beyond what was done in organizing earlier recoveries of our national economy. Typical among the causes for the difference between the earlier and present world depression, are the following.

As I have emphasized in earlier locations, when the preceding world depression struck with global force, during 1929-1933, about a dozen years (less than a generation) had passed since the massive build-up, during the 1861-1917 interval, of European civilization's physical-economic growth of productivity, military power, and other technological advances.

Today, nearly thirty-five years have passed (nearly two generations) since the willful destruction of the per-capita physical-productive power of civilization began, a destruction typified, at the beginning, by the savagery wreaked upon the United Kingdom's economy by the first Harold Wilson government. The challenge today, is therefore of qualitatively greater relative magnitude and complexity than that confronting Franklin Roosevelt during the 1930s.

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2. The science of physical economy was originally developed by Gottfried Leibniz through a series of original discoveries of universal physical principle which he introduced during the interval 1671-1716. My intensive adolescent studies in Seventeenth- and Eighteenth-Century philosophy, made me a disciple of that great man's work, which led me, more than a decade later, into my own original, additional contributions to that field. Notably, the American System of political-economy, as associated with the work of Benjamin Franklin, Alexander Hamilton, the Careys, and Friedrich List, were largely products of the impact of Leibniz's work on those minds, each in his own time. The American System of political-economy has nothing in common with the teachings of John Locke and Adam Smith, but is directly opposed to both, on grounds of fundamental opposition respecting scientific principle.

Organizing in Chicago, December 2001; and what was once a General Motors factory in Danville, Illinois.

Apart from Harold Wilson's almost Luddite wrecking of the British economy, the principal other initial damage to the 1945-1964 recovery of the U.S. and world economies, was introduced by Richard M. Nixon, beginning with the impact on national policy of his 1966-1968 campaign for the Presidency. Nixon's later decision of August 1971, wrecking the original Bretton Woods system, and putting the world under the ruinous lunacy of a floating-exchange-rate dictatorship, is crucial. His launching of the present, floating-exchange-rate monetary system, then, built into the present world monetary-financial system those axiomatic features which foredoomed it to collapse, unless those changes had been reversed.

The worst damage done to the U.S. economy itself, even worse than by the Henry A. Kissinger-controlled Nixon's follies themselves, was set into accelerating motion under the Zbigniew Brzezinski-controlled 1977-1981 U.S. Carter Administration. The latter administration, following the script which Britain's H.G. Wells had presented in his 1928 ***The Open Conspiracy,***[3] willfully wrecked the largest ration of the physical and financial infrastructure upon which both the U.S. economic recovery from the 1930 depression, and the post-war growth had depended.

The world monetary-financial system is now hopelessly doomed. It can not be reformed; it can only be replaced, by returning to something like the original Bretton Woods system of the 1945-1958 interval. During the entire period, especially during the period since Alan Greenspan's predecessor Paul Volcker introduced the present policies of "controlled disintegration of the economy" into the Federal Reserve System,[4] the 1979-2002 addition of this set of axioms into the world monetary-financial system, by Volcker, turned monetary and financial policy into an engine for destroying the real economy. This was accelerated under Presidents Nixon, George H.W. Bush, and William Clinton, beginning with two notable pieces of 1982 legislation: Garn-St Germain, and Kemp-Roth. The real economy has been accelerating downhill ever since (Figures 1a and 1b).[5]

3. H.G. Wells, ***The Open Conspiracy*** (London: Victor Gollancz, 1928).

4. Fred Hirsch, former editor of the London ***Economist,*** writing in ***Alternatives to Monetary Disorder*** (New York: Council on Foreign Relations, 1977), affirmed that "controlled disintegration in the world economy is a legitimate object for the 1980s." Paul Volcker delivered the Fred Hirsch Memorial Lecture at Warwick University in Leeds, U.K., in November 1978, and began his speech by citing Hirsch's dictum on controlled disintegration. Campaigning as a U.S. Democratic Presidential pre-candidate, in New Hampshire, on Oct. 16, 1979, I denounced Volcker's October 1979 actions (published in ***EIR,*** Oct. 23-29, 1979). The Carter Administration's demolition of the U.S. economy was pre-designed by the New York Council on Foreign Relations' 1975-1976 ***Project for the 1980s*** (New York: Magraw-Hill, 1977), a project co-supervised by Carter National Security Advisor Zbigniew Brzezinski and Secretary of State Cyrus Vance.

5. The combined Nixon and Carter Administrations set into motion a set of relations among monetary, financial, and economic processes, which I have illustrated by the pedagogical chart 1a: ***The Triple Curve,*** or "typical collapse

FIGURE 1a
A Typical Collapse Function

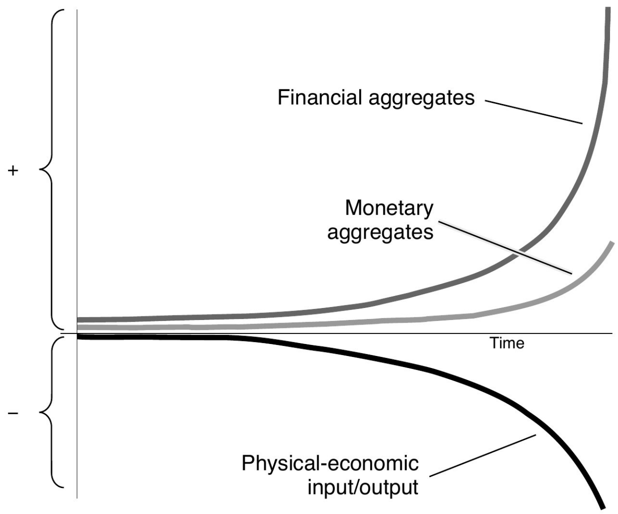
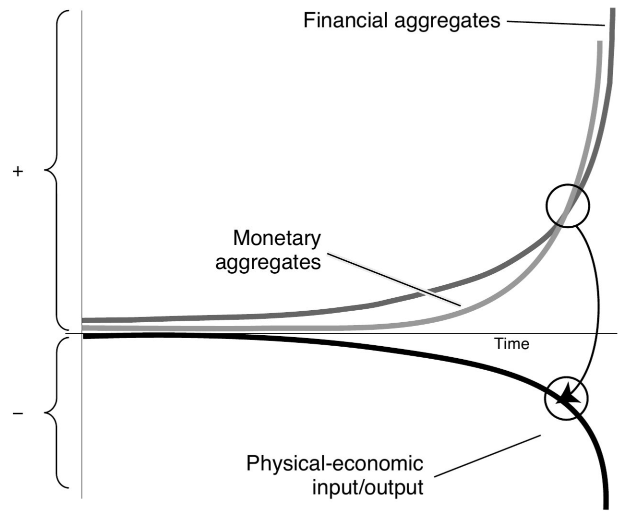


FIGURE 1b
The Collapse Reaches A Critical Point Of Instability



The impact of this long wave of post-1964 destruction of the physical economy of the U.S.A. and much of the world besides, has not only introduced policy-making problems of great magnitude. Also, as I shall indicate, the measures which must be taken, to ensure a durably successful economic recovery, will take the world into new categories of activity, including new approaches to managing the biosphere. These two, respectively quantitative and qualitative considerations, point toward problems of a type which might have been safely overlooked during earlier periods of successful economic growth. It is the urgency of these new policy-making problems, which most clearly defines my contributions to the practice of economic-policy-shaping as indispensable at this time.

I recast that just stated, crucial point, as follows:

Some of the new problems to be considered here and now, involve recently emerging strategic factors, and also strategic opportunities, which had not existed, at least not immediately, over the earlier course of the history of the world since 1776-1789. These new conditions of combined threats and opportunities, have become functionally unignorable under present circumstances. That is where my original discoveries in the field perform an essential role.

Moving Safely to the Exits

The current stage of the world depression can be compared to a fire in the crowded theater. The economy in which you are seated, is that theater. Do not panic, but, rather, prepare to move, as I shall direct you, to the exits—that, in an orderly fashion, at a steady pace. First, as if to calm the nerves of the panicked fellow standing next to you, I must remind both of you, briefly, of my authority for dealing with crises of this specific type. "The doctor who specializes in such diseases, is," so to speak, "here."

To seek to calm the nerves of excitable fellows, I situate the discussion against the background of certain relevant, crucial patterns in developments over the period since the election-crisis of Nov. 7, 2000.

During the interval from U.S. Election Day, Nov. 7, 2000, through Jan. 15, 2001, I issued a series of forecasts, identifying both the issues of that election-crisis, and the expected character of certain crucial developments which would unfold during the first twelve months of the next President's term. During that period, reports documenting those economic and political forecasts appeared in such readily available website and other locations as that of the weekly ***Executive Intelligence Review,*** and publications of my campaign for the Year

function." Speculative gains in financial markets are sustained by diverting monetary flows out of the real economy, into financial markets. This is sustained, increasingly, by looting the economic basis through large-scale attrition in basic economic infrastructure, and by driving down the net after-inflation prices paid for wages and production of operatives. Thus, we have a "hyperbolic" curve, upward, of financial aggregates; a slower, but also hyperbolic curve, upward, of monetary aggregate needed to sustain the financial bubble; and, an accelerating, downward, curve in net per-capita real output. This reflects the accelerated looting of the base (e.g., Garn-St Germain, Kemp-Roth), to sustain the financial bubble.

During no later than 1970, the amount of added monetary aggregate reached the kind of cross-over point (Figure 1b) which set into motion the Weimar Germany hyperinflationary explosion of June-November 1923. When such a cross-over point is reached, the system is doomed to an early end, a threatened breakdown-crisis. At that point, the system must be overhauled in bankruptcy, most of the financial aggregate wiped from the accounts, and a new system supplied to give the economy itself a fresh start.

2000 U.S. Presidential nomination.[6]

Today, none of those recent forecasts, nor my earlier, documented long-range forecasts, dating back thirty-five years,[7] have ever been refuted by subsequent events.

A year later—November 2000-January 2001, through November 2001-January 2002—the majority of the same set of forecasters opposed to me then, are still echoed by most of the establishment mass-mediaocracy, repeating today the same kind of foolish propaganda they were emitting a year earlier, with but one curious point of emphasis added. Earlier, that crowd had promised an early rebound of a shaky economy's financial and monetary markets; a year later, approximately the same crowd of forecasters is gushing out similarly dubious sophistries: But, the wildly hysterical mercenaries of Wall Street have added their non-sequitur. They have argued, that since the markets have taken a terrible beating over the course of the past year, now the markets have no room to maneuver; they have no way to go but up. These spinners conclude: the markets will surely go up, more or less spontaneously. With a gloat in their eye, they predict, either, that the upward bounce must come some time later this year, or, perhaps, the next.

Those who recall the 1930s, will be reminded of the 1929-1933 world depression, when, during the Hoover re-election-campaign of 1932, the Republicans and most Wall Street survivors promised the voters, "recovery is just around the corner."

Now, today, the "new economy" has collapsed, Enron is a shambles, the role of the U.S. economy as the "importer of last resort" for most of the world, has already collapsed, and will collapse much more. Unemployment zooms, as the increase in the number of employers going bankrupt, or hovering at the edge, also zooms. As governments turn to a next round of budget-cutting, they are shocked to discover that the loss of tax-revenue caused by the cuts, necessarily exceeds the amount cut from government expenditures. A sense of desperation spreads throughout the Americas, western Europe, Japan, Korea, and elsewhere.

All in all, this will look to some like a new world economic depression, like that of 1929-1933. In fact, it is much worse than was experienced in such places as the U.S.A., Canada, or Europe during the 1930s. Presently, if we put the special cases of Russia, China, and India to one side for the moment, most of the world has clearly entered the beginning-phase of what some early Twentieth-Century economists discussed under the academic heading of an hypothetical general breakdown-crisis.

Quantitative and Qualitative Recovery Measures

When compared to today's crisis, the depression of the 1930s seems relatively a problem of more sharply reduced quantity of economic activity. It would appear to those earlier economists, that, as in the case of a depression like that of the

6. For the text of these economic and political forecasts, see the following issues of ***EIR:*** Dec. 1, Dec. 15, Dec. 22, 2000; and Jan. 12, Jan. 19, Jan. 26, Feb. 16, and Feb. 23, 2001. ***EIR***'s website address is http://www.larouchepub.com; the Presidential campaign site is www.larouchein2004.org. Most relevant for the topics being presented above, are the following items presented in ***EIR:*** "LaRouche Addresses Washington, D.C. Conference," (Nov. 14, 2000) on the subject of the implications of the Nov. 7 Presidential-election crisis (also webcast worldwide); my Dec. 1, 2000 "The U.S. Strategic Interest in Russia" (***EIR,*** Dec. 15); LaRouche addresses a Dec. 12 Washington, D.C. seminar, "Presidential Election Campaign 2000: 'The Fall of Ozymandias' " (also webcast worldwide); LaRouche issues his "The Demise of an Importer of Last Resort" (***EIR,*** Dec. 23, 2000 and Jan. 19, 2001); LaRouche addresses a Jan. 3 Washington, D.C. seminar (also webcast worldwide), and issues his Jan. 4, 2001 announcement of his official Presidential pre-candidacy for the year 2004 (***EIR,*** Jan. 12, 2001); "We Told You So: The LaRouche Record of Economic Forecasts, Fall 1999-Election 2000" (***EIR,*** Feb. 9, 2001); LaRouche statement of Feb. 4 "On the California Energy Crisis: As Seen and Said by the Salton Sea" (***EIR,*** Feb. 16, 2001); LaRouche Jan. 15 address, "The New Bretton Woods System: Framework for a New, Just World Economic Order" (***EIR,*** Feb. 23, 2001).

7. In my conventions, a "short-term" cycle is one year; "medium-term" signifies three to seven years; "long-term" signifies a period of approximately eight to twenty-five years, or more. All my basic forecasting, since 1959-1960, has been long-term. My occasional forecasts of probable conditions to be reached within the short- to medium-term period ahead, have always been based upon a forecast for a long-term cycle. The reasons for those kinds of distinctions and forecasting practice, will be indicated within the body of this report.

1930s, recovery could now be effected by reversing trends in generation and flows of credit into investments in increased quantities of existing categories of physical output. Those opinions are far too optimistic. The present crisis, is essentially qualitative. In the case of the present collapse of the world's monetary-financial system, the distinction between "quantitative" and "qualitative," is crucial.

In the first, simpler case, a quantitative solution for an economy may be more or less adequate, if putting the combination of bankruptcy-reorganization of the monetary-financial system, combined with addition of protectionist measures, could utilize state-created credit to bring the reorganized economy up to a breakeven level, merely through reactivating existing productive and related physical-economic capacity.

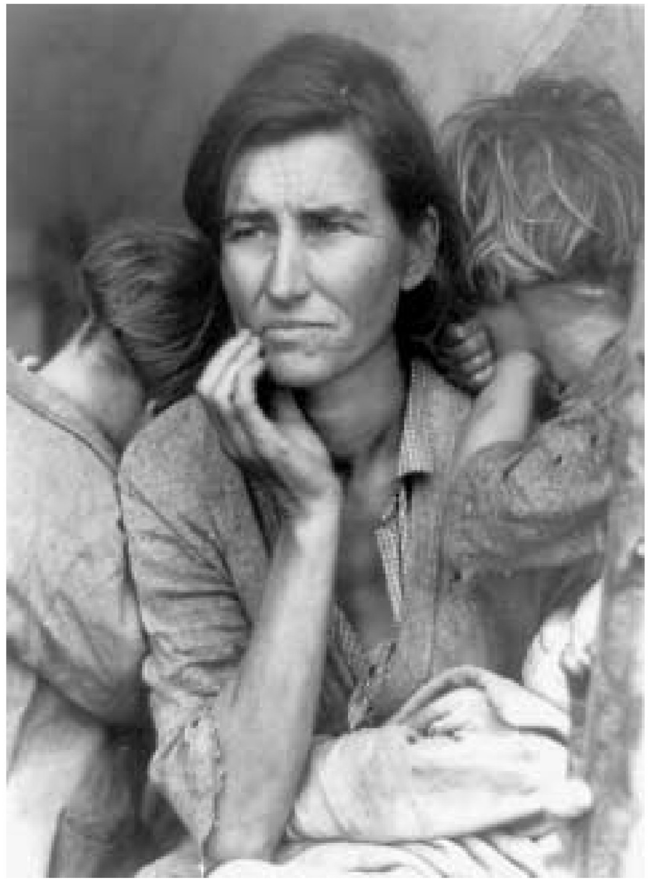
In the second case, the combination of monetary-financial reorganization and credit-expansion, does not rise to a sufficient level of combined active and idled physical-productive capacity to reach a breakeven level of real turnover. No solution is available within the limits of existing categories of such investment, without radical structural changes in the composition of categories of investment and production.

A glance at the difference between the first, pre-war phase of the U.S. recovery measures of the 1930s, and the war-mobilization phase, helps to clarify the meaning of a distinction between a quantitative and qualitative form of economic depression. The examination of those successive intervals affords a first approximation of the distinction between quantitative and qualitative cases.

Even into the war-mobilization phase, which began in the United States even prior to the Nazi invasion of Poland, the U.S. economy was still using up significant rations of inventories of semi-finished goods dating from prior to October 1939. Even during that period, large-scale public works programs of more or less qualitative significance, such as the TVA program, did build up the base on which the later, relatively explosive war-time economic expansion was based. Indeed the war-time mobilization would not have been possible without such public works and related investment.

The explosive growth in the economic-recovery program was a characteristic of the shift of U.S. economic-policy priorities to a national "arsenal of democracy" mission-orientation. For those of us who were adults during the 1940s and 1950s, the most accessible "marker" of this "arsenal of democracy" phase, was the U.S. government's production and continued ownership of a vast inventory of machine-tools, which were, in large part, leased to private contractors as part of the package for military and related production. The early super-achievement of President Roosevelt's pre-announced targets for levels of production of military aircraft, is typical of the phenomena.

It was the combination of infrastructure build-up, heavy rations of capital-intensive production investment, and not only a massive decrease in unemployment, but an accelerating up-shift in technological categories of employment, which characterized the qualitative transformation of the U.S. economy, upward, over the 1939-1945 interval, even under the condition that about 16 millions of us were drawn out of the labor-force for military service.



A migrant worker, mother of seven children, in California during the Great Depression.

I shall return to examine this matter of qualitative recovery-measures in more precise terms, at an appropriate, later point in this report. At the present moment, my point is to illustrate the distinction between merely quantitative and qualitative recovery-measures; and that, with the relatively most accessible choice of real-life clinical case.

Today, a general, qualitative breakdown-crisis is already darkening the horizon. To illustrate the nature of that challenge, I list a number of typical actions to be taken to halt the depression and launch a self-sustainable recovery.

1. We must a.) put the international monetary-financial system into immediate, governments- dictated reorganization; b.) restore a fixed-exchange-rate system; c.) establish exchange, capital, financial controls, trade controls, and fair-trade forms of protectionist

An up-shift in technological categories of employment characterized the qualitative transformation of the U.S. economy over the 1939-1945 interval, as economic priorities were directed to a national "arsenal of democracy" mission orientation. Here, a woman welder works on construction of the USS George Washington Carver, launched on May 7, 1943.

measures internally and externally; d.) increase drastically rates of taxation on financial capital gains, and substitute production- and technology-oriented medium- to long-term investment tax credits to entrepreneurs; e.) generate large masses of government-created credit at rates between 1-2% for, chiefly, a combination of entrepreneurial investment production and infrastructure investment; and f.) implement a general bank-reorganization program, which keeps needed banks performing essential functions for the community while under even drastic financial reorganization.

2. We replace "free trade" with the promotion of protected hard-commodity international trade, as part of the promotion of a global, long-term economic-recovery effort.
3. We must introduce the economic equivalent of a high-technology-oriented "arsenal of democracy" recovery program, both in the domestic economy and in world trade, to provide the qualitative dimension needed to reverse the monstrous loss of technologically progressive, physical-productive capacity and potential—a loss which has accumulated in the world as a whole during the recent thirty years, especially the recent quarter-century.

We had better take such measures, to stop that process of collapse before it hits with irresistable, crushing force.

With the guidance and backing of the world's leading economist of that time, Henry C. Carey, President Abraham Lincoln made possible the U.S. economic miracle of 1861-1876, as Franklin Roosevelt, at a later point, saved the U.S.A. Under the impact of Roosevelt's intervention, the U.S.A., and the world, avoided the risk of a slide into an actual breakdown-crisis.

Nonetheless, as I have already indicated above, I say again, that there are certain crucial points of difference between the challenge of organizing an economic recovery under conditions of today's threatened breakdown crisis, and the challenge of the world depression successfully met by incoming President Franklin Roosevelt. I shall deal with the most typical such new challenges, in my section of this report.

By this means, by introducing science to replace the forms of mysticism which have become popular among most U.S. academic economists and their dupes, we aim to free the people of the U.S.A., and other nations, from the deadly grip of that delusion which has brought those dupes, like fabled lemmings, to the brink of catastrophe. Whether we purge our nation's policy-shaping of those popularized follies, or the nation destroys itself by clinging to those follies, we may safely forecast the end of a delusion, either way: by ridding the victims of their fatal follies of belief; or, by witnessing the institutions eliminating the carriers of those delusions, themselves.

The ball is in your corner.