LaRouche outlines path to economic recovery to Congress

Lyndon LaRouche, a Democratic presidential candidate and economist, submitted the following written testimony to the House Ways and Means Committee on Feb. 5 for incorporation into the hearing record.

The first thing that one has to recognize, is that we are at the end of two long periods of history, one a very long one, and one of slightly more than a quarter of a century.

Let's start with the second.

In the early 1960s, under President John F. Kennedy, the federal administration launched a recovery program, which was a recovery not only from the Eisenhower administration's recession of 1957-58, but also from the doldrums which Eisenhower's policies made of the period immediately following the recession.

After Kennedy's assassination, there was a very rapid change of direction in American policy, in the direction of post-industrial society, and later in the direction of the malthusian policies of the so-called environmentalist movement, and of the rock-drug-sex counterculture as a new mode of behavior coming up among the generation which was reaching maturity in the 1968 period.

As a result we have a collapse of the physical economy of the United States, based on those changes which occurred one after the other in economic and related policy, since the assassination of Kennedy.

If we continue these policies, continue to operate under those axioms of policymaking, or try to find solutions to problems within the context of continuing those philosophical outlooks, then there is no hope for the United States, and we might as well shut down the deliberation and go home.

End of the Versailles System

The second major crisis, which is more global in impact than the first, is the fact that we've come to the end of the Versailles System. By Versailles System, one means, immediately, the network of treaty arrangements and policies which were consolidated in the immediate aftermath of World War I by the victorious Anglo-Americans and their French partners. We also mean the modifications of the Versailles System which were established in the period from 1942 through 1946, as the Yalta and other reforms, which established the postwar version of the Versailles System.

Implicitly, despite the conflicts with the Soviet Union from its inception during the 1920s and 1930s, and during the Cold War period, nonetheless, the Soviet Union was always part of the Versailles System. That is, the conflict between the Anglo-Americans, primarily, and Moscow, was the center of all world policymaking, especially in the period from 1945-46 onward.

Now, that period is coming to an end. The period was based on certain assumptions, which we have to recognize in order to understand what has ended. One assumption was that the Anglo-American-dominated "rim"—which included not only Britain, but North America, an Anglo-American-dominated Central and South America, the former colonial Africa, and most of southern Asia, including Japan—would dominate Eurasia, to a twofold effect.

Number one, under no circumstances, would the Anglo-American "rim" powers allow France, Germany, Russia, and others to combine for a North Eurasian policy of economic development of the type typified by the initiatives of Charles de Gaulle as President of the Fifth Republic of France. That would not be tolerated.

Secondly, the Anglo-American "rim" powers would not allow the Eurasian powers, that is, France, Germany, Russia, and so forth, to make the so-called developing sector, or the southern portion of this planet, a region of high-technology economic development based on large-scale infrastructure projects. That would not be allowed.

Now we've come to the point that the Russian factor, in the Soviet form, has been somewhat taken out of the box, perhaps temporarily, perhaps for a longer period of time. At this moment, the Anglo-Americans appear to be the dominant superpower on this planet; but at that very moment, the economic system of the Anglo-Americans is crumbling, together with the monetary system associated with the International Monetary Fund, which is also in the process of crumbling.

These are the two crises, which should be borne in mind in talking about anything, because the outcome of these crises will determine what happens, and what works and what does not work.

Therefore, people who come before this Ways and Means Committee, or other bodies of the Congress, with proposals, and who do not address the nature and implications of these two crises—the collapse of the Versailles System and the collapse of the post-Kennedy drift in economic policy-shaping—are actually implicitly embroiling us in a discussion of futile measures.

Reversing the post-Kennedy shift

The bottom line on economic recovery is twofold. First of all, we have a federal and state operating budget deficit in the United States presently, in excess of a half-trillion dollars and rising. Much of this debt is due to debt service payments alone; but nonetheless, it's rising and rising and rising. Therefore, any measure which does not address this hole of about a half-trillion dollars or more, is a futile measure, and any particular measure which is proposed, which is not part of a successful and effective address to the half-trillion-dollar-plus hole, is going to fail, or will probably fail.

So let's look at what the alternatives are. Number one, we could cut federal and state operating budgets by an amount ostensibly sufficient to eliminate the deficit. That is effectively impossible without shutting down governmental activities whose closure would have an impact on the population as a whole, the economy as a whole, more devastating in magnitude than the more than half-trillion-dollar deficit we're trying to correct.

One could propose to increase taxation by the more than half-trillion dollars involved, but such a shock increase of the rate of taxation would have a regressive effect on the economy, as bad or more devastating than cutting federal and state programs.

The third alternative, obviously, is to increase the tax revenue base without increasing, in general, the tax rates, and that is the obvious solution. But that brings us to a major problem: Where can we find the means wherewith to increase the tax revenue base?

What I have proposed, is that we aim at creating immediately 3 million additional jobs in new authorities franchised by the federal government, or state governments, or both combined. These authorities would have the responsibility of pursuing large-scale, much-needed, long-overdue projects of construction of infrastructure development, in water systems, water management, in transportation, in power generation and distribution, related matters of sanitation, and also in building the hospital and clinical bed and other medical capacities we desperately need, and in refurbishing some of our educational capacities.

These would be the major concerns. We could easily envisage such programs, on the basis of already existing, well-defined, engineering-defined needs. All we have to do is to decide that we're going to employ 3 million people as additional employees in such authorities, and we could, with the right management, do the job.

Now, we also know that such a project will generate a lot of business in the private sector for people who are supplying goods and services to these authorities for these projects. We can easily envisage that we can manage the project so that, for 3 million additional jobs thus created in the public sector, in the authorities, we can also control the contracts issued to the effect that we will create at least 3 million additional new jobs in the private sector, through vendors to these projects.

We also know, that the ripple effects of employment in these two sectors will be considerably beyond the benefits to the 6 million people immediately employed in this necessary work. We know that the minimum value-added allowance of credit, which must be allowed for any job in the U.S. economy at present, is in excess of $100,000 per capita. So we're talking about somewhere between $600 billion and a $1 trillion outlay of new credit, for this 6-million core of new employment. But we know the benefit of this will be much greater. We also recognize, of course, that we must limit the flow of credit into such projects to make sure we don't put credit into things which do not produce more value than the credit issued.

Refederalize the Federal Reserve

Now, where do we get over a trillion dollars, first of all, to meet these requirements, and also additional lending power, for other businesses which require lending power at a time when our financial system and monetary system are in sorry and worsening straits?

There is only one way we can do that. We must rely on state-created credit. We cannot do that, with the Federal Reserve System in its present form of organization and policy without generating hyperinflation. However, if we revert to the Constitution, with its provision that the federal executive, with the consent of the Congress, has a monopoly on the emission of legal tender, we can emit that amount of new legal tender through a nationalized Federal Reserve System, which will maintain all its contacts and structures intact, but will be nationalized in policy in order to conduit this lending power at very low interest rates, to these public authorities, and also at low interest rates with participation of private banks, to the private sector. In addition to that, we will make more lending power of the same type available to businesses, especially involved in hard-commodity operations in the private sector generally.

This means also we will have to use some measures of control, of protectionism. We'll have to monitor our currency, we'll have to monitor our banks, regulate things tightly, to prevent things from going out of control; not in order to have heavy supervision, but to keep things from going out of control, and to provide some degree of protectionism to get us through the period we're crawling out of this mudhole.

If those measures are taken, and the philosophy of those measures is understood, we can get out—with one further proviso. We must revert to the policy on which the strength of our nation was premised: investment in scientific and technological progress, an energy-intensive, capital-intensive, science-intensive investment in agriculture, industry, and infrastructure. If we do that, this program will be successful. But we know, because of the resistance to the very idea such a policy evokes, that this is a reversal of an approximately 28-year-long trend in U.S. policy-shaping in the economic sector in particular.

We must make that reversal.

All nations must prosper

It is no longer economically feasible to foster the delusion that the nations of the so-called industrialized, developed sector can remain prosperous while development is withheld from the nations of the so-called developing sector.

The idea that one person can remain prosperous while his neighbor sinks in misery, is not only an immoral idea, but is also an unworkable idea. Nonetheless, for many years in many circles, it has been a popular idea. We must reverse the International Monetary Fund conditionalities policy toward developing nations and also toward eastern Europe and the former Soviet Union. We must open these parts of the world for high-technology development. We must create a climate favorable to long-term investment, which means an additional emphasis upon state-funded, or state funding-related, large-scale infrastructure projects in water management, transportation, power generation and distribution, sanitation, and so forth.

These measures are the preconditions for successful investment. They also structure financial markets and other institutions necessary for prosperous investment in agriculture, industry, and related things. We must take this approach toward the developing sector, toward our neighbors in Central and South America, Africa (a more challenging case), and also southern and Southeast Asia, with China being a challenge of a magnitude which I don't think the United States has even begun to comprehend.