The Future of Forecasting

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During the year following the assassination of U.S. President John F. Kennedy, the U.S.A. and Britain led western Europe and the Americas into what became a radical change of direction for the worse, a change in the axiomatic characteristics of the world economy. The successive shocks of: the Cuba missiles crisis of 1962; the 1963 assassination of President Kennedy; and, the subsequent launching of the U.S. official war in Indo-China, played, combined, a crucial part in triggering a fundamental, forty-year shift, downwards, in the character of the U.S. economy itself. The U.S. was transformed, from the world's leading producer nation, to an increasingly predatory, imperial form of so-called "post-industrial" economy. That economy looted the cheapened labor of other nations, while diverting itself, at home, with more and more degenerate forms of entertainment; it has come to resemble the decadence of imperial Rome's down-slide into a self-doomed society of bread and circuses.

In 1971-72, the decision of U.S. President Nixon to allow the U.S. dollar to float, and the subsequent agreement at the Azores conference, transformed the already crisis-stricken International Monetary System of the late 1960s, from a well-regulated, gold-reserve-based, and fixed-exchange-rate system, into what has been a cancerous, so-called floating-exchange-rate system. This 1971-72 transformation set off a process which has now brought the world economy to the present brink of the worst general monetary-financial collapse in modern history.

The change of the U.S. economy, from the relatively successful protectionist model, which had led the world's recovery from the 1930s depression through the time of President John F. Kennedy's administration: plunged the world at large into an increasingly radical form of free-trade regime. The further actions in Autumn 1979, by the newly appointed U.S. Federal Reserve Chairman Paul Volcker, gave birth to the giant John-Law-style financial super-bubbles of today. These accumulated changes have destroyed much of the world's physical capital, by hyper-inflating financial capital through methods which have driven the relative price of commodities down to below the levels at which it has been possible to avoid a vast, cannibalistic destruction of essential capital infrastructure, of levels of skills of labor, and greatly reduced physical investment in agricultural and manufacturing improvements. The parasites such as the notorious Enron and the cancer-like spread of the giant Wal-Mart succubus, not only within the decadent U.S. economy itself, but around more and more of the planet, has become the emblem of the effect of this radical change of the past forty years.

Now, with the net product of the world's economy estimated as in the order of $40-odd trillions, the financial sector is dominated by an accumulation of hundreds of trillions of U.S. dollars-equivalent of relatively short-term claims represented by assorted forms of so-called financial derivatives, which, all together, are now raging in the manner of a runaway stage of a malignant cancer. It is that "financial cancer" which, at the moment this draft is written, is all that remains to keep the U.S. financial system from bursting into a chain-reaction phase of general collapse. We are, thus, hovering at the brink of the greatest international financial panic in modern history. At the highest levels of opinion behind the scenes in Europe, an early crash of that world system is now seen as inevitable.

What is onrushing is not a cyclical depression, but a terminal collapse of any attempt to defend the continued existence of a world monetary-financial system based on the newly accumulated axiomatic assumptions which have chiefly shaped the 1964-2004 process to date.

Under these circumstances, the most important point of discussion of economic policy today, is: "Why did the economists, and other relevant forecasters fail to foresee this frightening result of the forty-year change from a producer-society to a post-industrial orientation?" There were chiefly two reasons for the earlier failures of both the economists and political authorities on this account:

First, these leaders did not wish to see what should have been obvious from such earlier experiences as the 1928-1933 outcome of the failed Versailles monetary-financial system of the 1920s, under the British gold standard. They lacked the personal courage to challenge what they should have recognized as the folly of an emerging new trend in popularized opinions.

Second, the methods which have been continued to be used for forecasting, were not only wrong, but, over these recent four decades, have become the habits used to lead the world into the new set of adopted, repeatedly wrong decisions which brought us now, since about 1964, error by error, to the brink, not of a mere cyclical depression, but a threatened dark age comparable to the so-called New Dark Age of Europe's

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mid-Fourteenth Century.

This is not to suggest that the ruling ideas of the relatively successful, pre-1964 did not include numerous badly mistaken axiomatic beliefs. Despite those bad beliefs, and some were very bad, the trend of the 1945-1963 period was toward a general stability and improvement in the net effect of economically relevant practice. Now, as a result of radical changes since 1963-1964, the direction of the world economy has been, overall, in a net downward direction. As a result of that cultural-paradigm shift in ruling values, the world faces the challenge of organizing a recovery from the most monstrous monetary-financial collapse in modern history.

Why did the U.S. and other nations refuse to see this present catastrophe coming? All of the lessons of modern European history since the 1648 Treaty of Westphalia, and the explosive rise of the U.S. economy to world-power status beginning with the Abraham Lincoln Presidency—lessons confirmed by the success of President Franklin Roosevelt's great reforms—should have taught us not to go in the direction the United States and Europe have drifted during the recent forty years. The problem was not a lack of knowledge by our experts; it was, in effect, the result of an agreement by consensus, to destroy the most powerful, most successful form of economy which the world had ever seen.

Today, while the actuality of this global monetary-financial disaster is foremost in the discussions so far, at highest levels of senior figures behind the scenes in Europe, the politicians are terrified by the idea of stating in public the same facts of the situation which they are actively discussing, privately, among leading behind-the-scenes circles. Although the populations of the Americas and Europe, for example, are feeling the effects of the collapse more and more acutely, up to the present moment of writing this draft, the general population has yet to make the intellectual connection between their increased sense of suffering and the fact that the system as a whole is in the process of a general collapse. Nonetheless, despite all of the efforts of the politicians to deny this reality in public, the situation will now explode to the surface of public attention no later than some time in the immediate future.

Governments and economists generally must now change their ways. But, what assurance can we find that, even using new methods of forecasting, our choice of new ways will not fail as the old ones have failed during the recent four decades? Which optional changes in choice of new methods shall economists and governments employ, to do a better job of forecasting long-term policy-trends, than what had become widely accepted practice during the course of the recent forty years?

To correct the errors in forecasting which have guided the United States and others into the present world crisis, we must not merely define a better way of forecasting; we must identify and remove that factor of will for self-destruction which has been the driving intellectual force, radiated from top ranks in our society, into the vast calamity threatening to engulf our planet today.

To make clear the causes, and needed corrections, of the more or less consistent failures of the leading economic forecasters of the U.S.A. and others, over the recent four decades, I shall now introduce the discussion of the needed methods of forecasting, by now referring briefly to some of the crucial changes which must occur in the relations between two of the respectively sovereign republics of the Americas, the U.S.A. and Mexico, during the period of the next U.S. Presidency to be chosen this coming November.

After that brief review of certain crucial features of U.S.A.-Mexico economic relations during that period, I shall conclude this report by summarizing the argument against that monetarists' approach to long-range forecasting which has controlled, and misled so much of the world during the period since the 1968 election of U.S. President Richard Nixon.

U.S.-Mexico Since 1972

The most obvious geographical frontier for territorial economic development within each of Mexico and the U.S.A., lies in the relatively arid region running down through what is called, in the U.S.A., the Great American Desert, which continues into northern Mexico, especially the region between the two Sierra Madres. If the United States and Mexico cooperate in the addition of such essential, needed elements of basic economic infrastructure as large-scale water development, generation and distribution of high-density power, and of rail or equivalent forms of mass transportation of passengers and freight, the potential population densities and physical-economic conditions of life and production will be raised, with rather spectacular, good effects on each side of that national border. Successful capital development of those geographical frontiers, in each and both of those nations, would be a leading driver for a great physical-economic upsurge in each and both of those sovereign republics.

Undertakings of that type involve the spreading of the financing of physical capital formation over spans of one to two generations. As President Franklin Roosevelt's administration demonstrated, in organizing the U.S. recovery from the 1929-1933 depression: Intervention by governments, to organize long-term, low-cost financial capital for rapid, large-scale investment in infrastructure, is the only effective way of leading a depressed modern economy out of a deep economic depression. That is the only solution for the deep depression now dominating the trends in both nations at this time.

The same point I make here, was made in 1931 by a famous German economist, Dr. Wilhelm Lautenbach, an opponent of the Nazi Economics Minister Hjalmar Schacht. Had Lautenbach's policy been adopted for Germany, instead of the policies of the international bankers of that time, Hitler would not have happened. As President Franklin Roosevelt demonstrated, the only sane response to a depression like that of 1928-1933, or that onrushing today, is to reject so-called fiscal austerity cuts in employment and physical-capital-formation; that, in favor of expansion of employment in ways which raise the level of employment and production above current break-even. The mechanism available to modern governments to launch the opening phases of such an economic-recovery policy, is to place leading emphasis on immediate investment in expanded employment in production of basic economic infrastructure. This requires the creation of new volumes of long-term financial credit at 1-2% simple-interest charges. Such credit can be created only, either by sovereign states internally, or through relevant forms of long-term treaty-agreements under conditions of a fixed-exchange-rate monetary-financial order among nations.

Heretofore, the principal obstacle to such credit-creation for such projects, has been the institutions of the international floating-exchange-rate monetary-financial system. Now, however, at a time when the ratio of relatively short-term financial debt, especially in financial derivatives, is vast relative to the economic base of production, virtually every central banking system of western Europe, the Americas, and elsewhere, is implicitly bankrupt. In such a setting, the sovereign nation-states must assume responsibility for the reorganization of implicitly bankrupt central banking systems, placed in receivership by sovereign governments, using methods akin to those of Franklin Roosevelt and the Bretton Woods revival of the bankrupt war-torn economies of post-World War II Europe.

Under such crisis conditions, the obligation of the sovereign state conducting financial reorganization of its economy, is to maintain the continuity of all essential economic-social functions of both the population as such, and the economic institutions essential for general recovery.

In such circumstances as today, the challenge is to increase the physical productivity and physical standard of living of the population, per capita and per square kilometer. Large-scale essential improvements in basic economic infrastructure, are the means to promote initial expansion of the economy to break-even levels, and to stimulate the growth of employment and capital formation in the private sector through the spill-over effects of expanded public investment in appropriately selected categories of infrastructure. This is accomplished through the role of the state in creating the credit for both direct investment in building basic economic infrastructure, and supplying national credit, through ordinary banking channels, into priority categories of investment, in the private sector, of physical production and essential technical and professional services.

For example. The U.S. economy today is already bankrupt. Except for vast amounts of fictitious financial capital flowing into the United States from Japan, China, and elsewhere today, the United States is bankrupt as a nation, while each of no less than forty-eight of the fifty Federal states, could never balance their budgets within presently collapsing levels of employment and production. A similar condition exists in western Europe, not only in the physically bankrupt United Kingdom, but throughout the combined new and old NATO countries taken as a whole. Only the continued expansion of European exports into China and other economies of the rim of East, Southeast, and South Asia, would prevent western Europe from a rather immediate general collapse in the relatively short term. In such a state of affairs, only very large-scale capital improvements, in an amount sufficient to bring current operating accounts into profitable balance, could halt and reverse the present, U.S.-led plunge into a systemic collapse of the world economy as a whole.

The ability to reverse a trend as deep and grave as that facing the United States, among others, today, depends upon the power of the sovereign state, to place the ruined economies into receivership for bankruptcy reorganization, and to use the credit-creating power of the sovereign nation-state to create those vast amounts of long-term credit, as capital formation, needed to raise current levels of employment and production above the threshold of national, physical break-even. The ability to capitalize such a newly created state debt depends upon ensuring the successful long-term growth which will make that debt fungible in real, physical-economic terms, through growth of the net physical productivity of the nation, per capita and per square kilometer, over a period of approximately a generation.

A successful monetary-financial-economic reorganization of this type, requires a system of long-term fixed-exchange rates; a system of interest rates which are low and free of compounding; systematic capital controls; and extensive use of protectionist measures of trade and tariffs. Otherwise, no durable economic recovery would be possible under world conditions such as those already prevalent today.

What I shall now merely outline as the role of development of the indicated frontier regions of the U.S.A. and Mexico respectively, illustrates the way in which the next President of the U.S.A., to be inaugurated this coming January, could play a leading, cooperative role in launching the needed long-term process of general economic recovery.

The foundation of planning for the needed development of the Great American Desert regions of the U.S.A. and northern Mexico, was provided by a U.S. design known as The North American Water and Power Alliance (NAWAPA). NAWAPA already envisaged some of the relevant benefit to the area of northern Mexico. If that benefit is supplemented by a mass-transit development on both sides of the border, and also a realization of movements of water northwards from the water-rich, elevated southern regions of Mexico, this development will provide the basis for predesigned programs of development, and similar additional ones, in northern Mexico, and would improve greatly the internal economic integration of Mexico as a sovereign republic within its own borders.

To give some indication of the magnitude of such recovery programs, I have proposed that $6 trillions be allotted as the scale of long-term investment in rebuilding the capacity for generation and distribution of power and related capital improvements as a leading project launched by the next Presidency of the U.S.A. Six trillions dollars is a relatively modest goal, when compared with the scale of investment which would absorb a large portion of the loss of physical capital of the U.S.A. which has occurred during the recent thirty-two years.

To conclude my principal remarks here today, I illustrate the most crucial problem of forecasting today, as follows.

Physical vs. Monetary Economy

The grim joke of the history of what is taught as today's doctrines of political-economy, is that Karl Marx, the favorite whipping-boy of the Anglo-American monetarists, was a product of the same doctrine of the British East India Company from which virtually all anti-Marxist dogmas of today are taught still. Ironically, Marx's education in political-economy, chiefly in London, was delivered under the patronage of the Lord Palmerston whom Marx once denounced as a "Russian spy," all to the great amusement of Palmerston's Foreign Office itself. Notably, Marx reserved special contempt for the only real alternative to the British East India Company's school of political-economy at that time, the American System of political-economy of such leading spokesmen as Alexander Hamilton and the world's leading economists of the mid-Nineteenth Century, Friedrich List and Henry C. Carey.

Contrary to both branches of the Nineteenth-Century British school of political-economy, the foundations of the modern European nation-state economy are located, not in monetary theory, but in what Gottfried Leibniz was first to define as a science of physical economy. The emergence of that new conception of economy, on which modern European civilization was premised, occurred in three phases, as follows.

The first of these stages was that Fifteenth-Century Renaissance which produced Louis XI's France and Henry VII's England as the first true nation-states, states premised on the same Christian principle of the general welfare which the Apostle Paul adopted from the Socratic dialogues of Plato. The attempt of Venice's financier-oligarchy, during the period of religious warfare 1511-1648, to stamp out the existence of the modern nation-state, plunged Europe into what some historians have documented as a "little new dark age."

France under Cardinal Mazarin led in ending that religious warfare with the 1648 Treaty of Westphalia, a development which gave a ravaged modern Europe a new birth, a second stage of progress of the modern sovereign state. In this post-1648 setting, France's great minister Jean-Baptiste Colbert gave modern national economy its practical form; Gottfried Leibniz, beginning work in 1671, supplied a scientific basis for economy with his introduction of the science of physical economy.

In the third phase of progress, the principles of physical economy developed by Leibniz over the 1671-1718 interval, became the basis for what Hamilton and others identified as the American System of political-economy, as reflected in the constitutional principles of the U.S. 1776 Declaration of Independence and the intention embedded in the Preamble of the 1787-1789 Federal Constitution, still today.

Later, after the defeat of the prospect that Leibniz would become the Prime Minister of England under Queen Anne or her successor, the Anglo-Dutch successors of Venice's financier oligarchy worked to establish what became the Anglo-Dutch Liberal parliamentary system of government and financial economy today. The British East India Company's defeat of France in the "seven years war" concluding with the 1763 Treaty of Paris, established the British empire as the dominant force in economy world-wide, up to the present character of the now doomed Anglo-American system dominated from New York and Washington, D.C.

As a result of the combined effects of the Jacobin Terror, Napoleon's tyranny, and the growing world hegemony of the Anglo-Dutch Liberal system of financier-oligarchical hegemony, progress in the development of the state never progressed beyond the principles which European influence had embedded in the creation of the U.S.A. as a constitutional republic. So, the dominant features of internal finance became the principles of the Anglo-Dutch system associated with the British East India Company of Lord Shelburne and his followers. For related reasons, that Anglo-Dutch Liberal system of political-economy has become the prevalent habit of common practice and academic dogma up to the present day.

The practical expression of the difference between the

Anglo-Dutch and American systems of political economy, is the constitutional banning of the existence of a so-called independent central banking system under a true republican form of government. Although the reforms by means of which President Franklin Roosevelt rescued the United States from the disaster created by the policies of Presidents Coolidge and Hoover, did not go all the way to restoring that constitutional principle, Roosevelt succeeded in introducing reforms which had the effect of nearly fulfilling that constitutional requirement.

We have now reached the point of disaster, at which it is no longer possible for any sane and responsible government to tolerate the over-reaching power of so-called independent central banking systems. Any nation which does not subordinate the sometimes dictatorial powers of so-called independent central bankers, to the will of the republic, is now doomed to plunge toward a new dark age under fascist-like dictatorial conditions. This is not a matter of opinion; it is an irrevocable matter of fact.

If the world is to avoid a rather immediate plunge into a global new dark age, the creation and regulation of money shall become a function of the sovereign state, and concerts of such states. The present world crisis has virtually eliminated the possibility of continuing civilized life under a continuation of the political-economy dogmas spawned by the Anglo-Dutch Liberal system.

We must now turn to those principles of the formation of the U.S.A. which provide the only well-established form of international cooperation among the planet's sovereign nation-states. The only tested form of proven alternative available for adoption today: the American System of political-economy. The state must create the money and related credit needed to general economic recovery and growth, and the state must regulate the circulation of that money and credit in ways which promote physical economic health.

Therefore, the principle by which government itself must be ruled, is the principle which Leibniz identified, in opposition to the pro-slavery views of John Locke, as "the pursuit of happiness."

The nature of man, as in the image of the creator, refers to those powers of creative reason by means of which the human species is able to discover those universal principles, by means of which man's power in the universe is increased. This power of reason, when expressed in a manner consistent with its nature, defined the mortal individual as efficiently immortal, in continuing the good provided by ancestors, and bestowing new good upon coming generations. Since we are all mortal, happiness pertains to a sense of certainty of the immortal and good consequences of the work we do as living persons. It is therefore, not admissible to treat human beings as a kind of hunted or herded cattle; we must foster those creative powers which express the immortality of the human individual. The joy of the individual in fostering progress in Classical culture and physical science, in increasing man's power in and over the universe we inhabit, is the pursuit of happiness; is the common good. The fostering of scientific and technological progress by private entrepreneurs, as farmers, manufacturers, and otherwise, is the obligatory dedication of the state in its responsibility for the general welfare, and pursuit of happiness, of present and future generations.

Money must be put into its proper place, as an instrument of commerce by aid of which common action among individuals fosters the common good.

At his best, my President Abraham Lincoln represented this dedication, and so did President Franklin Roosevelt. In neither case was the outcome perfect, but it was infinitely better than the alternatives allowed, then, or now, under strict adherence to the doctrines of the Anglo-Dutch Liberal form of parliamentary system.

In the future, better programs for self-government than the American System model may come into existence. Now, faced with a deadly global emergency, we must seize upon the best of the proven alternatives presently in existence. That means not only adoption of the best of the indicative features of the American System of relations among respectively sovereign forms of national republics; it means a shift in the conception of statecraft, from physical economy as the slave of usury, to money as the servant of what Leibniz defined as the pursuit of happiness.