

sound anti-inflation policy consists in channeling "excess liquidity" into productive investments — investments in plant and equipment and in the development of new technologies, which raise labor productivity and cut production costs — in tandem with tax policy reform to promote capital formation. For this approach to work, what has to be frozen is categories of non-productive debt, principally the debt burden hanging over the developing sector, not the dollar overhang as Reuss suggests.

The only voice of sanity amid all the inflation versus deflation banter is that of certain businessmen and their political allies who realize that the Administration's 7 percent lid on wage increases will actually undermine labor productivity and hurt business. The president of Data General, a rapidly expanding computer company in Wesboro, Mass., told the *New York Times* recently that the wage guidelines will actually fuel inflation in his industry. Mr. de Castro said that his company was able to lower its prices 15 to 20 percent a year during 1976 and 1977 because of impressive gains in productivity. He attributed these gains to the computer industry's generous compensation of its skilled workforce, as well as the extensive training programs to upgrade skills. This deflationary process is currently threatened by the guidelines program devised by Council on Wage and Price Stability director Barry Bosworth, the whiz kid from the Brookings Institution.

—Lydia Dittler

Why Robert Triffin is

LaRouche clarifies the role of paper credit

Several weeks ago (Executive Intelligence Review, Vol. V, No 47, Dec. 5-11), we reported on Robert Triffin's call for the strengthening of the Special Drawing Rights system which he helped design in the 1960s. We noted that Triffin is trying to "kill the EMS by cooption." In the following analysis, U.S. Labor Party chairman Lyndon H. LaRouche, who has looked at Triffin's recent productions, explains what's behind his latest outpourings.

It is the spreading perception among leading circles on the continent of Europe that Professor Robert Triffin has been making an awful public ass of himself during recent weeks. Since I and my immediate associates know some relevant things about Triffin which other policy-makers may not have put into place from their own knowledge, my report on the current state of the Triffin case will be helpful.

My attention was first drawn to Triffin during the 1960-1961 period. I have always since granted him his due for his efforts of that period; he was one of the few policy-influencing voices who did indeed warn that all was not going well with the Bretton Woods system. Unfortunately, on matters of economics, he was less than useful then, and his recent recommendations are, at best, downright pathetic.

Mr. Triffin's most obvious ignorance is that he confuses purely paper credit and paper-credit mechanisms with what his peers among academics amuse themselves to term "savings." By "savings," the academic lads mean something very simple — yet Triffin has so far shown no comprehension of so simple a point.

Paper credit is ultimately a bill of exchange for tangible wealth produced. The net growth of paper credit which is associated with the expansion of an economy is properly limited to the amount of investable goods remaining after current costs of production, maintenance and replacement are deducted. Generally speaking, as long as the amount and direction of flow of paper credit is kept in line with the investment of the portion of goods represented as savings, an economy tends to function agreeably without catastrophic inflation or deflation.

Mr. Triffin's consistent folly is that he has never managed to grasp so simple a connection.

I am not saying that the foregoing covers the subject of economics. A study of my *The Theory of the European Monetary Fund* indicates what an adequate economic theory must take into account. I am merely pointing out that Mr. Triffin has flunked the first, beginner's step toward understanding how an economy works.

Unfortunately, it is not Professor Triffin's shocking ignorance of the ABC's of economics which has reduced

so muddled

in a healthy economy

him recently to an object of scandal. He has, unfortunately, some very bad associates. As any old-time probation officer knows, bad company has been known to lead a susceptible soul into troubles. There is a certain, obvious similarity between Triffin's wild misrepresentation of the European Monetary System and the current babblings of Britain's Messrs. Denis Healey and David Owen. This is no mere correlation in views; there is a more direct connection.

Triffin's crowd

Following my April 1975 Bonn press conference, at which I first announced the International Development Bank policy, a small parade of leading British bankers and their New York City and continental collaborators presented themselves at our offices for chats. In some cases, as with Hambros, their solicitation of a meeting came to us out of the blue. In other cases, like that of Mr. Nicol Krul, then of Geneva's Lombard Odier, the meetings developed in course of their extremely friendly responses to our routine economic-journalist telephonic surveys.

The contacts proliferated in London banking circles and elsewhere into the close of 1976, and were abruptly cut off (most within a 24-hour period) during the Spring of 1977, as London launched its coordinated assault upon the U.S. dollar. Over a period ranging from 18 to 20-odd months, we had a lively and frequent contact with key banking and related sorts of executives of that faction among entities representing approximately a third or more of the lot. They knew what we were up to, we knew what they were up to, and each of us knew that the other knew.

The exchange generally went thus. We followed the pathway of stating these points: "Your old monetary system can't work; ours will; come over to our side; no good can come of New York repeating the sort of mistakes you pioneered as policies." Their side of the dialogue went: "You are very clever, but we won't accept your system; you won't succeed; you will see that we know how to manipulate that pack of official fools you are interesting in your proposals."

By about December 1976 the conversations turned surly, the old amiable banter between adversaries was replaced by gruff noises. During May-June, 1977, the contacts ended, and the relations grew downright nasty.

During the eighteen or more months that sort of dialogue persisted, the British acted in a way which suggested they considered themselves obliged to feed us a certain amount of credible information — as bait for we, who were intended to be the fish in that particular sport. We, being observant and also more than a bit nosy regarding matters which are important to us, picked up

much information, including many leads followed up as a matter of cross-checks and further information. In this and related ways, we were aided in placing Professor Triffin rather precisely in the constellations. The convergence between his views and those of Denis Healey is high-level and as good as direct.

It should be added that Triffin and his crowd of associates have expended a large amount of attention on Labor Party literary output, with special emphasis on my own productions. It should also be added that Mr. Triffin has direct access to sensitive information concerning the European Monetary System. One can say that his remarks concerning the European Monetary System of late are not merely blunders, but downright lies.

Triffin's folly

I have under view before me now two of Triffin's recent exertions. The first, a copy of a November 14, 1978 paper he delivered as a "John J. McCloy" address to the New York Council on Foreign Relations. The second, an article on the same topical area published in the Winger 1978-1979 issue of *Foreign Affairs*. Since others among my immediate associates will provide a fuller literary treatment of those items, I shall focus here only on certain overall features which bear directly on the point at hand.

Triffin's views of the past twenty years of the Bretton Woods system are parallel to the case of a certain witch-doctor. The tribe had contracted syphilis; the witch-doctor knew that some affliction was taking over, but had not the slightest inkling of its cause or remedy.

The ABC's of economics, referred to above, are key to Triffin's incompetence on the point. On condition that generalized technological progress obtains, and that the productive powers of the labor force are being developed through education, better conditions of life, and so forth, an economy has two basic problems to consider. First, there must be a growing ratio of "savings," and those "savings" must be invested in expanding the scale and quality of production.

The "savings" take the form of consumer goods (the wages of newly employed workers), plus materials, supplies, machinery, plant, equipment, and — indispensably — expanded volumes and density of energy supplies. By combining productive labor with the elements of capital-intensive workplace creation, the economy is expanded. On condition that technological progress predominates, and that the average intensity of capital investment is rising, the result will be not only a gross expansion of employment and output, but a twofold increase in the volume of savings. Not only does increased production mean increased savings; the effect of capital-

intensive technological improvement is to increase the rate of savings even after increasing the real content of wages and public services such as health and education.

If those conditions are met, a sound economic policy and practice is in effect. Forget all the silly chatter about "distribution of wealth." If household wage-incomes are adequate, public services adequate, and the transportation infrastructure adequate, distribution will occur automatically.

There is one other possible source of trouble. The savings are put to work through the use of credit. There is no reason the amount of credit available can not be sufficient to circulate all production. The savings investments are tangible wealth; if properly invested, they mediate a larger growth in volumes of savings than the investments represent. As long as the credit system functions on the basis of those principles, no fundamental calamity can occur in an economy operating on the sound economic basis we outlined just above (barring earthquakes, nuclear wars, and so forth). However, credit systems have usually been inappropriately developed and regulated.

If credit is used for some purpose other than fostering production of new wealth, and is not biased toward technological progress in production of tangible goods, the economy is headed for a bust. Unless something intervenes to correct the flaws in the credit-system, there will be a bust.

What Triffin noted at the close of the 1950s were phenomena which symptomized the imminence of monetary crises within the Bretton Woods system. Just as the witch-doctor does not need to diagnose syphilis to recognize a growing problem in the tribe, so Triffin misinterpreted the evidence before him during the 1950s developments. If no official but the witch-doctor calls attention to the fact that a problem exists, the witch-doctor has performed a useful service *to that extent*. As to the cause of the illness of the Bretton Woods system, and therefore as to the remedies for that illness, Triffin is in fact proposing to treat the symptoms with the sickness itself.

The 1957-1958 recession was, most immediately, the culmination of a misdirected form of credit expansion during the 1954-1957 period. If a reasonable limit had been placed on consumer hard-goods credit terms, and an accelerated-depreciation and exports program had been applied during the Eisenhower administration, that recession could not have occurred with the severity and lasting effects which have been the fact of the matter. The aggravation of obsolescence in plant and equipment, noted during that recession period, was a crucial symptom of what was wrong.

If Triffin had paid competent attention to the facts I outlined during 1958-1959, he could not have blundered as he did during the onset of the 1960s or in his presently stated retrospective view. It was clear to me, and should be clear beyond quibbles to a retrospective view, that the French Fifth Republic and Japan were crucial in preventing the outbreak of monetary crises until the mid-1960s. President de Gaulle's fostering of high-technology development and long-term export-orientation of capital-goods production in France, de Gaulle's collaboration with Konrad Adenauer, plus Japan's development, provided the margin of capital-formation which kept the Bretton Woods system from immediate crisis during the early 1960s. It was the British operations against de Gaulle — with complicity from elements of the Kennedy administration and Johnson administration — plus the 1967 Mideast war, plus the British operation against Adenauer (e.g., the *Spiegel* affair), which politically upset European and Mediterranean economic-progress trends, and unleashed the 1967-1968 pound-dollar crises.

Triffin ignores two, interconnected fundamentals. First, on the economic side, he fails to consider the basics of savings, investment and technological progress in respect to the 1954-1978 process as a whole. Second, he refuses to identify the wrong-headed monetary policies and the wrong-headed fiscal-monetary management which generated both a failure to realize tangible savings and the monetary engine of a self-feeding, speculation-based inflationary spiral.

The lesson to be adduced is that the mass and rate of growth of monetary aggregates are fool's issues if viewed in and of themselves. The point is to produce high-technology tangible wealth, and to increase the scale and social-productivity of such production. This is accomplished by designing fiscal and monetary mechanisms to ensure an adequate flow of credit to production and investment in higher technology tangible-goods production, while putting other applications of monetary credit and other sources of income at a marked relative disadvantage.

What Triffin is doing currently is to copy the "soft" version of expressed British hatred against the European Monetary System. Confronted with both the reality of Giscard's and Schmidt's actual policies, and with the accelerated influence of my own theoretical-economic analysis of the new system, Triffin is using "Delphic" methods. He is attempting camouflage, to parody the "lingo" of the EMS and related proposals, while actually proposing a neoSchachtian, SDR-based world dictatorship of the bankrupt Bretton Woods system.