
Book Review

The essence of statecraft

by Paul Gallagher

How Credit Can Be Greatly Expanded Without Adding to Inflation

by Lyndon H. LaRouche, Jr.
New Democratic Policy Committee
New York, 64 pages.
Suggested donation \$1.00.

This informational pamphlet is Lyndon LaRouche's first book-length published work explaining in detail his "LaRouche-Riemann economic model"—the computer-based analysis and forecasting tool which has made the *Executive Intelligence Review* the only source of reliable economic analysis for the U.S. and Europe over the past 12 months.

The Riemannian physical-science method behind LaRouche's model, developed since his initial breakthroughs in 1952, is the subject of the author's forthcoming textbook *Mathematical Economics*, to be published by New Benjamin Franklin House in 1981.

The LaRouche model's results, published since mid-1979 in this magazine, have made LaRouche—as he notes—the world's acknowledged leading adversary of the recent succession of public disasters known as "Volckerism." In economics circles per se, LaRouche's opponents associate themselves with that Alfred E. Newman of economists, the monetarist Milton Friedman.

LaRouche writes the current economic outline after a two-month tour of Europe as spokesman for a growing progrowth conservative wing of the Democratic Party, and "as an economist dedicated to halting the present slide toward a probable 1981-1982 depression."

Beginning in November 1979, with a computer-based general forecast for 1980 of the *combined* results of the "Iran round" of oil price increases and the Volcker credit measures, repeated empirical tests of the LaRouche-Riemann model have shown it to be the only econometric model in existence that corresponds with economic reality. As a scientific method of analyzing the crucial *causal*

factor—technological advance or decline—within economic processes, his model has fundamentally recast the theory of economics. It has successfully built on the groundwork of previous giants of scientific national economy like Gottfried Wilhelm Leibniz, Benjamin Franklin, Alexander Hamilton, and Friedrich List.

LaRouche's accomplishment has begun to destroy the false, pervasive division, entrenched since the late 17th century, between the study of the laws of the physical universe (*Naturwissenschaft*) and the study of the human mind and society (*Geisteswissenschaft*). LaRouche's reunification of these disciplines has been in economics, the precise study of the process of human societies' increasing dominion over the physical universe and its laws. Of competing, linear input-output concoctions, he notes that "methods which would fail to describe the lawful ordering of the physical universe are inadequate to describe the economy," which is a physical process.

These results have additionally made a scientific duncecap out of the Nobel Prize for Economics. Comparison of recent winners' forecasts with the reality of the past 12 months has even been more embarrassing than usual.

Policy questions

LaRouche notes that today's economists, like the 18th-century house economists of the British East India Company, who invented monetarist economics, are employed and paid to defend rent spirals and other "speculative debt bubbles" against the productive economy. In the United States and Britain today these "bubbles" have grown larger than the entire national productive economies they feed upon. Today's economists, says LaRouche, consistently propose remedies which worsen the disease, while denouncing the creation of real productive credit for healthy growth as "inflationary."

Thus the 1980 "Volcker" crisis has brought the first conclusive empirical verification of a scientific economic

model. However, LaRouche's concern in writing this explanation of his model *as a tool of economic growth policy* is to use the model to halt the depression slide, to halt the resulting drift toward nuclear war, and to restore respect for individual creative accomplishment, for scientific and technological progress, as the object of modern statecraft, before it is too late for such statecraft to intervene.

The most urgent problem, from the standpoint of LaRouche's canvassing among European and American leading circles, is the lack of policy *institutions* prepared to combine and make the concentrated effort to halt the depression slide.

Since the death of de Gaulle's economic adviser Jacques Rueff, of German banker Jürgen Ponto, with whom LaRouche was discussing a gold-based world monetary system in 1976, and of Pope Paul VI, who applied his extraordinary morality to international economic development efforts, the burden has fallen on French president Giscard and West German chancellor Schmidt. The political party institutions available to these leaders are albatross-like weights corrupted with "single-issue" incompetence. In Italy, the situation is far worse. Consequently, leading scientists and industrial planners have not been engaged to solve the problem of rapid recovery, and their competence is not made available to constituency institutions.

Having created such a policy institution in America, LaRouche is now organizing a "transatlantic policy-formulating discussion" to link this to progrowth elites in Europe.

These were LaRouche's intellectual collaborators in the founding of the European Monetary System (EMS) in 1978. With considerable precision he dissects the cause for the "stalling" of the European leaderships in starting the essential "Phase II" of the EMS. This is the channeling of petrodollar and other reserves through the EMS into large-scale, gold-based capital credits for industrial and agricultural development purposes worldwide. LaRouche reports broad agreement that this antidepression move would, technically, work—and work in the short term. This credit generation would unleash *deflationary* high rates of capital-intensive investment.

Why have competent European leaders tolerated the smearing of urgently needed capital-formation measures with the brand "reflationary"? The reasons for the "stalling" of the EMS, says LaRouche, are political failures of courage.

Under the last year's *political* conditions of "Islamic fundamentalist" rampages in OPEC nations, Brzezinski's "China card," and Polish destabilizations, the EMS forces have accepted a mode of semipermanent "controlled confrontation" between the superpowers, a

world situation too dangerously unstable to allow bold monetary reforms—reforms that would stabilize it! Precisely as the Thatcherites desire, continental Europe is accommodating the delusion that several years of savage, Volcker-like austerity against production in the name of "stopping inflation" are necessary, to be followed only later by gold-based credit expansion!

LaRouche focuses his sharpest attack on the Gross Domestic Product method of national income accounting. By ignoring the distinction between tangible production and administrative-service overhead (even necessary overhead), the GDP measure effectively ignores the real physical-thermodynamic economy—which can collapse into rubble without perturbing the GDP for some time.

The most devastating U.S. economic problem today is the collapsed proportion of the American workforce employed in tangible production, from two-thirds in 1946 to one-third in 1979. As the effects of such devolution begin to dominate manifest economic phenomena, "the econometric approach to forecasting produces almost meaningless results."

Knowledge of real "thermodynamic" processes of economics is the subject of LaRouche's description of the "minimum necessary path" of an economy from one range of productive technologies to the next higher-order technological level. That path is defined by the rate at which "ordinary" rates of production and population growth exhaust resources defined by the technologies in use, necessitating periods of extraordinary growth associated with breakthroughs into new technologies which define new resources.

Productive economies, to exist for any sustained period, can only move *upward, at an accelerating rate*, through a "phase space" defined by measures of energy throughput per capita, and free-energy ratios available for technological transformations. The "long waves" of "ordinary" growth and "short waves" of breakthrough expansion combine in a necessary upward path taking an economy from the introduction of one broad range of technologies to the breakthrough to the next range, before the resources defined by the lower range run out. "Equilibrium economy" in LaRouche's words is "murderous folly in the policymaking of nations."

The goal of pursuit of necessary rates of economic growth, LaRouche points out, is not growth itself but the development of individual creative accomplishments, the maturing of "average" adults of higher creative abilities and culture. The penalty for abandoning or "postponing" the necessities of such rates of growth is massive reductions in human population potentials. LaRouche calls the moral acknowledgement of this dual necessity the essence of leadership, or "statecraft."