Croatia needs an alternative to IMF shock therapy

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Exactly 50 years ago, during June-July 1944 in Bretton Woods, New Hampshire, an international conference of "financial experts" took place, headed by Harry Dexter White and Lord John Maynard Keynes. At that conference, the International Monetary Fund was founded. The IMF is the supranational institution *par excellence,* with far-reaching powers to intrude into the national sovereignty of its member states. The IMF's board of directors is, together with the United Nations Security Council, the most powerful supranational body on Earth. And, as indicated by the just-published report of the Commission on the Future of the Bretton Woods Institutions, headed by ex-Federal Reserve chief Paul Volcker, the powers of the IMF are to be further enlarged. The IMF's policies are the policies of the Anglo-American financial establishment, not those of the American government. The control of these private financial elites over the IMF is so solid, that they can afford the tradition of having a Frenchman as IMF director. To my knowledge, neither Japan nor Germany has ever challenged IMF policies.

Croatia, since its hard-fought achievement of independence, has been the victim of an informal, but ruthlessly enforced, embargo on foreign credits by the IMF. Croatia was told that the lifting of that credit embargo depended on its acceptance of the diplomatic schemes of the U.N., Lord Carrington, Cyrus Vance, and David Owen. The Tudjman government went far, much too far, in adapting to these demands, yet Croatia is still receiving no substantial foreign credits.

Monetarism against the real economy

The IMF's policies are not *market,* but *free market,* monetarist polices. The "enemy image" for the IMF is the *dirigist* market economy, which the IMF describes as "neo-mercantilism." Economic policies in the tradition of Jean-Bap-

Croatians, returning to their homes in Lipik after a Serbian bombardment in 1992, found nothing but rubble. Now, the government faces the task of rebuilding the nation, but is subject to a credit embargo by the International Monetary Fund.

tiste Colbert, Alexander Hamilton, Friedrich List, or Lyndon LaRouche are an anathema for the IMF. The IMF's clearly stated policy aims, which are being dictated, with devastating consequences, to countries in transition to a market economy, are these:

- servicing the foreign debt, irrespective of the debt service's percentage of the state's foreign exchange earnings;
- fiscal austerity and the elimination of budget deficits, irrespective of the productive or unproductive use of state funds;
- reduction or elimination of capital controls and trade tariffs, irrespective of the national economy's level of productivity and international competitiveness;
- privatization or liquidation of state-owned industrial and infrastructure enterprises.

The so-called IMF shock therapy, based on these aims, has led in eastern and southeastern Europe to a shock-reduction in industrial output, infrastructure performance, and living standards. These IMF free-market policies are simply incompatible with rising outputs of capital and consumer goods through technological and organizational improvements in industry, the *Mittelstand* [medium-sized enterprises], and private farming; the repair and expansion of hard and soft infrastructure (energy, transportation, water and waste management, health, social services, education); and the improvement of the standard of living. It is an indisputable historical fact that successful market economies have *never* developed through a free-market policy. No national economy anywhere could ever be reconstructed and develop under these policies. That holds true not just for ex-communist economies, but equally so for the members of the Organization for Economic Cooperation and Development (OECD), the Third World, or the "newly industrialized" states of Southeast Asia.

The IMF policies are a categorical refutation of the "physical-economic causality" which is the basis of any developing, growing economy. IMF policies ideologically proclaim a financial and monetary *equilibrium* as the economy's supreme aim. Behind the formulas of monetary/financial equilibrium and "fiscal discipline" lies a very different reality: Not only is the underlying physical-economic reality being abstractly negated by neo-liberal IMF policies, but the productive activity of the physical-economic base of society is actually being suffocated. The fact is, that only under conditions of *rising physical-economic output*

- can monetary stability be achieved, since inflation always signifies the gap between monetary and financial aggregates and available physical-economic wealth;
- can the state budget be consolidated through a rising tax revenue based on rising industrial and agricultural turnover and increasing incomes;
- can the foreign debt be serviced and decreased as domestic savings and foreign trade with manufactured goods rise;
- can capital controls and trade tariffs be slowly reduced as international competitiveness, based on higher labor skills

and technology, improves.

The global financial collapse

It is impossible to understand what went wrong in the post-1989 economic transition processes in the former communist countries, if one does not adequately comprehend how and why the OECD's financial system has descended into the present crisis. The actual depth of the global financial crisis is in general profoundly underrated. Here in Croatia, the economic-financial crisis in the West seems minuscule compared to the vast economic problems at home. One often hears the words, "We would very much like to exchange the West's economic 'problems' with ours." While that view may be understandable, the objective facts tell a very different, dramatic story.

In June 1994, Lyndon LaRouche wrote: "The presently existing global financial and monetary system will disintegrate during the near term. The collapse might occur this spring, or summer, or next autumn; it could come next year; it will almost certainly occur during President Clinton's first term in office; it will occur soon. That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization." (LaRouche's statement was published in *EIR* on June 24.) Only days later, Roland Leuschel, the chief economist of Banque Bruxelles Lambert, told *Le Monde:* "The countdown to the crash has begun. . . . We are paying the price today for the creation during the past two years, notably in the United States, of the most extraordinary financial bubble in human history." On June 22, the highly respected City of London financial analyst Stephen J. Lewis was quoted in the London *Daily Telegraph,* that during the first months of this year, "the steepest bond market fall since 1914" occurred. In the first six months of this year, the international stock markets have massively declined: New York −6%, Frankfurt −11%, Paris −18%, London −19%, Mexico −27%, Honkong −32%, Tel Aviv −41%, Warsaw −45%, Shanghai −48%, Istanbul −59%.

However, one may say, this is just Cassandra-like talk. Aren't the West's leaders, Helmut Kohl or Bill Clinton, proclaiming the exact opposite? Aren't the OECD's central bankers, economics and finance ministers passionately speaking of an "economic upswing" and the "stability" of the financial system? Well, I would suspect, that what Kohl says publicly and what he knows privately are not necessarily the same. There will be Bundestag elections in Germany on Oct. 16, and Kohl thinks that saying unpleasant things about economic-financial affairs before elections is not a good idea. So, Kohl, until October, will proclaim that things are just fine and well under control. And, he hopes that the ongoing financial "mudslide" or "meltdown" will not accelerate into a financial breakdown before October. I would bet, however, that after October, Kohl will talk very differently. He is already now, in close collaboration with European Commission President Jacques Delors, preparing for a vast European high-speed rail infrastructure program to create jobs for the European Union's 20 million or more unemployed.

Kohl knows that Germany's premier bank, Deutsche Bank, one of the pillars of Germany's economic strength, has probably experienced in the past six months more financial losses than during the past 40 years. You may have heard that Deutsche Bank, as shareholder and/or creditor, lost massively due to the financial speculation at the giant Metallgesellschaft, at the real estate firm Schneider, and at the Balsam/Procedo firms. Together with speculative losses with its bond futures operations and other derivatives trading, Deutsche Bank may have lost up to DM 10 billion [$6.5 billion] in the past six months. If that can happen to a bank which for decades, under Hermann-Josef Abs and Alfred Herrhausen, shaped decisively Germany's industrial might and abhorred Anglo-Saxon financial speculation, then one may get a sense of what the actual financial condition is of other financial institutions in Great Britain, the United States, France, Italy, Sweden, or elsewhere.

Coming back to the IMF, one may confidently forecast, that the IMF will not survive the 51st year of its existence, at least not in its present form.

Speculation in derivatives

What are the reasons for the ongoing financial collapse? In the summer of 1988, the French economist and Nobel Prize laureate Maurice Allais published a remarkable series of articles in *Le Monde*. He contrasted the daily volume of physical world trade at that time, approximately $12 billion, with the daily volume of international financial transactions, approximately $420 billion. He wrote that "the essential parameters of the world economy are fundamentally unstable. . . . The world economy rests on a gigantic pyramid of mutually interlocked debts. Never in previous history has there been such an accumulation of financial titles. . . . Speculation has decoupled the parameters of real economy from the (financial) nominal values."

The chairman of Deutsche Bank, Alfred Herrhausen, who was assassinated in November 1989 because he wanted a "Marshall Plan" for Europe's East, had said in February of that year: "In earlier times, international movements of capital formed a cloak over international commodity movements. . . . This connection no longer exists today, or only in an extremely loose form. . . . International capital flows today are 25 times larger than the flow of goods. . . . The movement of international capital has assumed a powerful dynamic of its own."

In essence, the "scissor gap" between the global physical economy and the aggregate financial superstructure (credit, stocks, bonds, futures, options, swaps, etc.) has been dramatically widening since the early 1980s. We can speak of financial speculation or "fictitious capital" when the growth of financial titles surpasses the growth of the real economy, or financial expansion occurs while the real economy stagnates. In its final phase, speculation, cancer-like, "eats up" the physical economic assets. That condition has been reached since summer 1993, primarily through the explosive growth of derivatives. The deregulation of financial markets, along with the use of computers and worldwide electronic data transmission, had led to "financial globalization" and a day with 24 business hours. The "game theory" developed by John Von Neumann and Oscar Morgenstern was applied for *computerized speculation techniques*. The result was the creation of "innovative," "synthetic" financial instruments. These so-called financial derivatives are futures, options, or swaps based on price fluctuations of "notional aggregates" of stocks, bonds, stock/bond-indices, or currencies.

Financial derivatives are the ultimate negation of real economic causality. They are speculation in its purest form, totally decoupled from physical economic activity. In 1992, the *daily turnover volume of derivatives transactions reached $1,100 billion,* according to the official data of the Basel Bank for International Settlements (BIS). Many of these transactions are conducted "over-the-counter," i.e., there are no reserve provisions for them and they do not appear in the balance sheets of financial institutions, and thus the supervisory agencies don't know about them. In 1993, huge business collapses due to failed derivatives speculations set in: the vast Canadian real estate conglomerates Olympia & York and Edper; the large Italian food/chemical firm Ferruzzi; the Spanish bank Banesto, linked to J.P. Morgan in New York. In the first two quarters of 1994, the large Wall Street banks, investment houses, and leading "hedge funds," such as Soros's and Steinhardt's, suffered major losses. The German situation was mentioned already. The derivatives-based, speculative "emerging" financial markets in Latin America, Asia, and eastern Europe collapsed. But, this is all only the beginning of the general process of collapse of the global derivatives-centered speculative bubble. This vast contraction will likely not be a one-time "crash," but is already taking the form of a giant financial mudslide or a "creeping crash." This accelerating collapse process will inevitably erode the position of the principal international financial institutions, especially the IMF.

Life after the bubble has burst

The fundamental issue before us, therefore, is: What will life be like after the inevitable financial breakdown? What emergency measures will have to be adopted to ensure that the financial breakdown does not bury the real economy under it? How can productive assets be protected? What needs to be done to prevent and reverse uncontrolled production breakdowns and a further mass unemployment?

I want to demonstrate that the basic principles of emergency policies in an economic-financial crisis in the West are, while obviously different, not fundamentally different from the policy principles that need to be applied for economic reconstruction and development in transitional economies. It is useful, I think, to approach the matter of reconstruction in a historical perspective.

In 1991, the proceedings of a conference on Sept. 16-17, 1931, at the German central bank, the Reichsbank, was published by two German academic economists. That conference had been held in secrecy, and its proceedings remained unpublished for 60 years. The conference was sponsored by

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the then-influential Friedrich List Society, and was headed by Reichsbank President Dr. Hans Luther. Its participants included some 40 government officials, bankers, and economists. Among the economists were Walter Eucken and William Röpke (who, during the 1950s, became the leading theoretician of Germany's "social market economy"). The conceptual basis for the secretive conference was a memorandum written by Dr. Wilhelm Lautenbach, a senior official at the German Economics Ministry.

Lautenbach's memorandum, about which there were two days of intense discussion, had the title, "Options for an Economic Recovery through Investment and Credit Expansion." Lautenbach wrote, "The natural way for overcoming an economic and financial emergency is not economic contraction, but the expansion of economic activity." Lautenbach differentiates between two types of emergencies. One derives out of what he calls extraordinary "production tasks" like the war economy, the conversion of a wartime to a peacetime economy, or reconstruction programs after great natural disasters. The other category of emergencies are those in which the financial system breaks down and the real economy sinks into depression, with mass unemployment and large-scale production standstills. Under economic emergency conditions, there would be a general understanding that "we should and we want to produce more. The market, however, the only regulator in a capitalist economy, obviously gives us no directive at all." The reactivation of the "significant unused production potential" is "the central and most pressing task of economic policy." The state must generate a "new economic demand." But, and this is a fundamental condition, this demand must represent a genuine "economic capital investment." It must be productive, not consumptive! Thus the overriding necessity for the state is to act in a manner such that "public or state-supported projects and investment programs are realized." These programs "must result in additional real economic value." Lautenbach thought mostly of public investment programs in transportation infrastructure, such as roads, highways, and railway construction as well as modernization.

Naturally, says Lautenbach, the fundamental question is how to finance these productive investments which expand the nation's real economic wealth. That question has to take into account that "long-term capital is available neither on the foreign nor on the domestic capital markets," the latter because the domestic saving rate is too low. Moreover, the state coffers are empty, because the tax revenue is too low. These are precisely the constraints for reconstruction today in transitional economies. The great danger is that "in times of the deepest depression, perfectly reasonable, necessary public works are being cancelled" for lack of financial resources. So, how can these state investment programs be financed? Lautenbach soberly notes that "liquidity, first of all, is a technical-organizational question. The private banks can be made liquid when they have the necessary backup with the central bank." The "actual credit issuance by the central bank" necessary to facilitate a "credit expansion with the private banks" can be rather limited. Lautenbach proposes that the central bank provide the private banks with a rediscount guarantee for that category of credit that is, exclusively, used for defined "economically reasonable and necessary infrastructure investment programs." Thus, the central bank's credit generation to facilitate the financing of infrastructure programs by the private banks is just a margin of the total credit volume necessary for these projects.

The credit financing, through central bank-discountable and prolongable letters of credit for such investment programs, has both immediate and indirect effects in activating the economy: an immediate expansion of production through the productive utilization of idle workers, machinery, and raw materials. With the improvement of the financial condition of firms involved in the projects, the financial condition of their banks improves as well. Thus the demand for capital goods rises and wage payments for newly employed workers lead to an expansion of the demand for consumer goods. Lautenbach says that the "trigger effect of the primary credit expansion" for infrastructure projects has the "effect to stimulate production as a whole." This, in turn, is leading to an enlargement of the state's tax revenue, which allows the state to make payments to the central bank for the long-term consolidation of the original credit-generation.

The improvement of the infrastructure and an upgrade of the technological quality in industrial production leads to a rise in physical output and the average productivity of the economy as a whole. Thus, the economy can be stimulated without creating inflation.

Lautenbach categorically denies that credit-financed infrastructure projects would lead to inflation. He says that the projects are not consumptive; rather, they represent "in a material sense, genuine economic capital formation." But, says Lautenbach, he would not oppose, as a reinsurance against inflationary anxieties, that the wage level be reduced by a certain degree, if the "economic saving thus achieved" would exclusively be used for the creation of new productive workplaces. "That saving and the productive use of what is saved" must be combined. "Positive action, making credits available for investment, are in every respect primary. . . . If we refrain from adopting such a policy, we will inevitably suffer further economic collapse and the ultimate and total ruin of state finances and the economy as a whole. In such a condition, in order to avert a domestic policy catastrophe, a strong demand will arise to go for new short-term public indebtedness for purely consumptive and not productive purposes. Today, we can still decide that through the employment of this credit policy for productive purposes, both our economy and our public finances can be brought back to stability and growth."

In his concluding statement to the 1931 conference, Reichsbank President Dr. Luther said that the vast majority of the participants agreed with Lautenbach's argument. Interestingly, Rudolf Hilferding, the Marxist economist and former Social Democratic finance minister, opposed Lautenbach most fervently. Luther wanted the conference to remain secret until a formal government decision on it, because he feared the violent opposition of Germany's Anglo-American creditors against Lautenbach's policy package. When in 1932, Chancellor Kurt von Schleicher began to implement the Lautenbach program, he was forced out of office. As his successor, with the active support of powerful Anglo-American financial interests, Hitler came to power in January 1933. In July 1934, the Nazis murdered von Schleicher. The Israeli economic historian Avraham Barkai is on the mark, when he writes that the Nazis' takeover could have been averted, had an economic policy shift, as proposed by Wilhelm Lautenbach, occurred in the 1931-32 period.

The Hamilton/LaRouche 'National Bank' model

In Europe, to my knowledge, the Lautenbach policy package is the closest approximation of the Hamilton/LaRouche model of "national banking," i.e., productive credit generation to finance physical economic reconstruction and modernization. Alexander Hamilton was the first treasury secretary of the United States. In his *Report on a National Bank* (1790), *Report on Public Finances* (1790), and *Report on Manufactures* (1791), Hamilton laid down the principles of that credit policy through which the U.S. economy, devastated after the seven-year-long War of Independence, was reconstructed in a short period of time. In the economic history of the past 200 years, such "unorthodox" methods of financing infrastructure and advanced technology projects have repeatedly been implemented and provided the basis for actual industrial development. During the 1970s, Lyndon LaRouche took up and theoretically advanced the concept of national banking for productive credit generation.

Croatia is faced with a "Catch-22" situation that is rather similar to the dilemma described by Lautenbach. In order to achieve the urgently required macro-economic productivity increase and the modernization of the production apparatus, infrastructure—hard and soft—has to be rebuilt and modernized. But, declining production, the indebtedness of industrial enterprises, low incomes, and inflation do not provide the state with the tax revenues to pay for infrastructure reconstruction. This holds true especially for Croatia, which has to achieve economic reconstruction and development *under conditions of war*. State borrowing from private capital sources is no option either. The domestic savings rate flowing into the domestic private banking system, is too low, due to the low incomes. That condition is not really offset by the capital transfers from Croatians living abroad and the revenue from foreign tourists in Croatia. Foreign private (or state) creditors are not willing or able to provide the financial resources to pay for the reconstruction and general modernization of Croatia's national infrastructure. Beyond the above-mentioned politically motivated IMF credit embargo, the IMF's economic-financial policies do not encourage the buildup or maintenance of a state-owned national infrastructure. As mentioned above, the opposite is the case. Even if we hypothetically assume that foreign capital would flow into the reconstruction of Croatia's infrastructure, the capital costs and the debt service would probably be, in most cases, unaffordable. Under conditions of national reconstruction, there is a pressing necessity that the national economic surplus product be reinvested directly and to a maximum extent. If a country in transition has to pay 20, 30, or 40% of its export earnings for debt service to foreign creditors, then any domestic economic development must be stifled. Thus, when neither sufficient tax revenues nor domestic savings nor foreign capital is available to finance the reconstruction and development of infrastructure and advanced technologies, a Hamiltonian national banking approach becomes a pressing necessity.

Private entrepreneurship is fundamental for any functioning economy, but privatization must proceed organically. Because of the lack of domestic savings, and thus domestic private capital formation, the shock privatization of large firms can have only three undesirable results: Foreign capital buys them up far below their value; they get simply liquidated, if state ownership is abolished; or a corrupt *nomenklatura,* if not organized-crime figures, seize control. One should keep in mind, that many of the most efficient large corporations in France and Germany have been state-owned for decades, while managed as private enterprises. And the same goes—still—for most of the infrastructure enterprises in the OECD sector.

The communist economic system, with its rigid, command system of "economic planning," has understandably created a fundamental aversion against any type of economic planning. It must be understood, however, that successful economic performance in the West was always based on some type of economic planning by the state.

A useful model of economic planning, which is radically different from that in communist economies, is "indicative economic planning," developed in France during the 1950s and 1960s. Indicative economic planning signifies the definition of infrastructure projects and strategic technologies. For the overall economy, no "imperative" targets were set; that remained fully the domain of private entrepreneurship. The undertaking of infrastructure projects was mostly financed directly out of the state budget. In the undertaking of strategic industrial projects, the state played a more indirect role through tax preferences, subsidized capital costs, and related economic-financial policies, which the French call "encouragement." General de Gaulle saw *planification* as the alternative to both liberalist laissez-faire capitalism and totalitarian communism.

In Europe, the policy package developed by Dr. Wilhelm Lautenbach in 1931-32 is the closest approximation of the Hamilton/ LaRouche model of "national banking," i.e., productive credit generation to finance physical economic reconstruction and modernization.

The French state planning agency was founded by Jean Monnet and perfected under de Gaulle between 1958 and 1968. The General Planning Commission was by no means some vast bureaucratic structure, but had a staff of less than 200. These experts were closely collaborating with selected qualified representatives of the ministries, businesses, trade unions, scientists, and Parliament. They provided the basic strategic parameters for the economic development of France.

An economic reconstruction strategy for Croatia

An emergency strategy for Croatia's economic reconstruction and development would reasonably combine the LaRouche/Hamilton model of national banking for productive credit generation with indicative economic planning. We can sketch here only the general principles, not the specific characteristics of an economic emergency strategy for Croatia:

First, the planning institution defines certain urgently necessary national and multilateral infrastructure projects: high-speed rail/maglev lines; highways; inherently safe, high-temperature nuclear power plants of the Jülich type; housing projects; technical universities; multilateral aerospace projects, and so forth. For Croatia, high-speed rail and highway links to western Europe through Germany and Italy, to central eastern Europe through Hungary and Austria, and to the Middle East, are of vital importance. The June summmit of the European Union in Corfu accepted the program for a European high-speed rail network that had been pushed by European Commission President Delors. The planned rail network is a nearly complete adoption of LaRouche's 1990 "Productive Triangle" plan for an all-European infrastructure-vectored reconstruction program. LaRouche foresaw high-speed rail "development corridors" from Paris to Berlin to Warsaw and from there to St. Petersburg and Moscow. A third corridor should go through Wroclaw, Krakow, and Lviv to Kiev. A fourth corridor should go from Vienna to Budapest and on to the Black Sea coast.

A fifth corridor should go from Munich to Villach, Ljubjana, Zagreb, and from there to Istanbul. The first four corridors are included in the EU rail network plan, but the Munich-Zagreb-Istanbul line is *not!* The devastating impact for Croatia's economic future should be obvious, were Croatia's exclusion from a high-speed rail connection to central-western Europe not reversed. The Corfu rail map reveals a lot about how Croatia's medium- and long-term economic development is seen abroad. It reveals a lot about the "understanding" of Croatia's present government of the economic-strategic significance of infrastructure projects.

Second, the planning institution defines strategic technological areas both for industry and small or medium-sized enterprises that have a high potential for productivity growth. This may include advanced civilian/military technologies in the realm of directed, electromagnetic radiation, like lasers, or electromagnetic hydrodynamics.

The state-controlled national bank generates, on the basis of the nation's financial sovereignty, the credit necessary to finance these infrastructure and technology projects. Only these defined projects, and nothing else, will be financed by the national bank. The available credits are to be long-term and low-interest in the realm of infrastructure. Concerning technologically advanced investment projects of private enterprises, the credits may have a slightly higher interest rate, but any interest above 5% becomes absurd under conditions of developing pioneer technologies.

Those credits can be directly allocated by the national bank itself. Probably, the Kreditanstalt für Wiederaufbau in postwar Germany, which played a key role in financing infrastructure, housing, and technology projects during especially the 1950s, could be a model. Direct credit allocation is most appropriate for large-scale infrastructure projects.

A second mode of credit allocation has the national bank providing credits to the private banks and savings and loan institutions. They in turn make it available to private enterprises which are involved in the above-defined infrastructure and/or technological investment programs. The private banks usually have a good knowledge of small and medium-sized enterprises and their investment needs. Thus, an efficient, flexible relationship can be established. That second approach was adopted during World War II in the United States for the financing of the gigantic armaments programs. It should be noted that no significant inflation was created through this process.

The flow of credit into the private enterprises involved in the defined infrastructure and technology programs, means that they can pay their workforce and hire additional labor. They are in a financial position to buy new capital goods, pay their suppliers, and make profits to be reinvested. Such "jump-start" financing for infrastructure and technology projects effects a general expansion of demand for capital goods and secondarily also for consumer goods. National banking implies a "two-tier" credit (and taxation) system, with a clear preference for productive, physical economic investment and soft infrastructure, as well as productive, necessary services. Non-productive investments are not administratively prohibited, but their financing will be rather expensive, and they are thus discouraged.

During the realization of infrastructure projects, the state's tax revenue base expands. Thus the state comes into a position to pay private enterprises involved in infrastructure projects after their completion. The national bank may also transform the credits directly or indirectly loaned to these firms which financially started and sustained the projects' realization, into grants. The state's expanded tax revenues allow for the long-term consolidation of the national bank's credits loaned out directly or through the private banks. Once infrastructure projects are realized, overall economic productivity is raised and economic growth is achieved. This again means that the tax revenue is increased without an increase in the tax burden. The national bank's credits for technology programs in industry and the *Mittelstand* are to be carried by those at their own private risk. Here, we have a stimulating effect through the minimum financing costs for these projects, while on the other side, the technologically advanced goods that are produced have naturally the best chances on the market.

It is to be emphasized here that the Hamilton/LaRouche model of productive credit generation is axiomatically different from Keynesianism. John Maynard Keynes never envisioned productive credit generation by the state. His policy was that of "deficit spending," i.e., rising state indebtedness (and debt service) to the private capital markets. Keynes never set the condition that employment programs must increase capital intensity, energy density, the transportation throughput factor, and the quality of labor power. Instead, Keynes created the IMF.