

EXCLUSIVE

Emergency Advice To Bankers

The following statement was released May 27, 1977 by U.S. Labor Party National Chairman Lyndon H. LaRouche, Jr. :

I wish to make clear to working people why I am now advising U.S. bankers to immediately cut off all further lending except for hard-commodity credit and short-term personal and household loans.

First, although no one can predict the day on which the "crash" will occur, the world is presently teetering on the edge of the biggest monetary blow-out in history. Under these circumstances, it is urgent that the basic machinery of credit for productive employment be kept as intact as possible, so that the collapse of one or two key New York City financial institutions does not trigger a general chain-reaction of institutional collapse.

Second, the recent Federal Reserve action of raising interest rates is typical of the floundering incompetence flowing from the Carter Administration and New York Federal District. In this situation, someone has to give out the sane word to Congress, state governments, and to bankers and industrialists. With the aid of key figures who already accept my competence in these matters, a strong recommendation from me will encourage responsible bankers to follow the right course of short-term action.

Arthur Burns' Blunder

The current collapse of the U.S. dollar is being triggered by a plunge in the U.S. balance of trade. The problem is not that we are importing too much, but that we are exporting much too little. This drop in U.S. exports is directly the result of Manhattan bankers and International Monetary Fund pressures on Third World countries to reduce their imports. That means a cut-back in imports from Western Europe, Japan, Canada and the United States. So, U.S. exports drop and U.S. unemployment rates increase.

The drop in U.S. exports means a drop in U.S. foreign earnings. This causes an increase in U.S. inflation and is leading toward an estimated five percent (or larger) devaluation of the U.S. dollar with respect to West Germany's deutsche-mark.

What does Federal Reserve Chairman Burns do about this problem? He tries to cover up the problem by raising U.S. interest rates so high that — he hopes — short-term money will tend to flow from Europe into the New York money markets in search of an additional margin of profit. This dries up credit for domestic production and for financing exports. Meanwhile, it won't work anyway, since anyone considering moving into New York markets knows that a possible five percent devaluation is in the wind.

What Burns Should Have Done

Burns should have acted to *lower* interest rates on all hard-commodity credit, but at the same time acted to cut off all other credit-flows except into Federal government securities and short-term personal and household loans.

In other words, credit should be sharply restricted to keeping the wheels of industry and agriculture moving as fully as possible, to defending the credit of the U.S. government, and to ensuring social stability (e.g., personal loans).

He should have acted, at the same time, to encourage bankers and industrialists to dig in in preparation for the imminent monetary blow-out. Bankers must concentrate their positions as much as possible in non-speculative hard-commodity investments and credit, debts of preferred *national* governments of OECD countries, and gold. They should prepare to freeze other categories of financial paper, and move as far as possible away from secondary markets and refinancing operations.

These actions should be based on the presumption that my private International Development Bank-type banking actions will become dominant world policy during the relatively short term.

What We Are Going To Do

First, there are not going to be WPA "make-work" jobs, and no expansion of "labor-intensive" employment. All credit available will flow into industry and agriculture, both to finance additional production orders and for high-technology capital expansion.

The economics of this is simply this. Ten billions in government-funded make-work jobs will go mostly to waste or to things which have no significant benefit for improving total U.S. earnings. Make-work programs are not only inflationary, but as the experience of the 1930s ought to make clear, make-work, WPA-type projects reduce the potential for economic recovery. However, \$10 to 15 billions of Federal government debt-service can generate approximately \$100 billions in new production contracts.

Such use of Federal government debt to stimulate economic recovery is not inflationary unless military orders are the kind of production being financed. Since bombers, tanks and so forth can neither be eaten or used as machine-tools, they do not represent an increase in the production of wealth, but — national defense needs aside — are economically production poured down a bottomless pit.

Military production should be done only for military needs, not as a job-creating gimmick.

What we are going to do to counteract the collapse of present monetary system is this. We are going to scratch together every nickel of hard-commodity reserve we can pull together as basic reserves concentrated through a new international central bank. The in-sight potential for this purpose is in the order of about \$20 billions of reserves for world trade. About \$1 to 2 billions of these reserves will be in the form of gold reserves, and the remainder in the form of hard-currency holdings or commitments. With this, we can generate up to \$200 billions in new hard-commodity credit, to restart world trade on an ascending scale.

Governments, such as the United States, will create a national debt for export-oriented production. This mar-

gin of debt will cover chiefly intermediate-term and long-term loans to developing countries, and will be applied to industrial and agricultural development projects, including a very large portion going into creating full-cycle fission and (later) fusion energy production.

To ensure that the new banking system does not repeat the same old crap which got us into the present mess, developing-sector loans will be limited to projects which increase the level of productivity in those countries through more-advanced, higher-energy-consuming forms of industrial and agricultural production. The code-word used for this in many circles today is "technology transfer."

The national government debt of net capital-exporting countries will be defended, but much of the pyramided financial debt of the developing nations is going to be written off the books or frozen, and the new loans issued will be at low interest rates and for sufficiently long terms that the new debts are matched by a realistic future projection of ability to pay. By pushing the actually worthless debt to one side, we clear the way for high-technology exports into the developing sector in the order of \$100 to 200 billions annually over current trade balances.

This means that modern U.S. (and Canadian, West European, and Japanese) high-technology industrial and agricultural capacity is literally "as good as gold." Every modern productive capacity will be put to work, and every job that represents will be filled.

There will not be a significant increase in employment opportunities for social workers, or for service-employment increases outside of production-related services. The job increases will be among skilled and semi-skilled industrial, construction, transportation jobs of all categories, and among scientists, engineers, and technicians.

There will also be an increased requirement in the U.S. for certain categories of teachers at all levels. These will be for teaching jobs related to technology. On the university level, this will mean a shift to emphasis on physics, chemistry, biology and so forth, away from sociology and

such useless types of liberal-arts subjects.

New Credit Policies

In the coming period, credit-issuing policies inside the United States are going to shift drastically away from past patterns toward selective credit policies. The emphasis will be on new production, with a heavy emphasis on new technologies and export.

Our toughest problem is going to be real estate paper. It is in the urgent interest of the United States to dry out sources of credit for all forms of speculation. This means no easy credit for secondary markets in stocks, or real estate. New construction, maintenance of useful structures, genuine improvements, and so forth are classed as new production. This means a collapse in secondary-markets for mortgages and old real estate. However, we will have to manage this in a way which does not crush savings institutions, certain pension funds, and so forth.

Our basic approach to that problem is already worked out, as the USLP's draft Emergency Employment Act specifies. No one is going to go hungry or be driven into the degradation of relief because of the collapse of the old monetary system. As long as we crank up industrial production on the basis of high technology, we have the means available to deal with each of these problems — and, naturally, we will do just that.

However, interest rates are going to drop down to the levels of between 1 and 2 percent, and a lot of purely paper financial book values are going to drop.

We are going back to pre-Jacksonian national-banking and national-economic policies, to the foundations in sound economic policy upon which the achievements of our nation were based. Banking in general is going to become industrial and agricultural banking. Get-rich swindles will evaporate; our source of wealth will be solely what we produce and the increase in the productive powers and real incomes of our people, achieved through steady advances in skills and productive technologies.

Andreotti, Schmidt: Belgrade Conference For Energy And Mideast Peace

The final days of May have seen a dramatic increase in diplomatic activity throughout the Mediterranean region. This is certainly what could be expected in advance of next month's European security meeting in Belgrade, Yugoslavia. But the circumstances of Italian Prime Minister Giulio Andreotti's visit to Greece and Rumania, and West German Chancellor Helmut Schmidt's upcoming visit to Yugoslavia, clearly indicate that these two leaders are coordinating their activities in order to make Belgrade into an important step toward averting war in the Mideast, thereby helping to avoid general thermonuclear war.

The Belgrade meeting will bring together delegations from the 35 nations, the U.S. and Canada among them, which signed the Helsinki agreement on Cooperation and Security in Europe (CSCE) two years ago. For months

the Carter Administration has been intent on using this occasion to harass the Soviet Union over "human rights" questions. The intention of Schmidt, Andreotti, Yugoslav President Tito, and others, however, is to expand CSCE into a comprehensive set of agreements on Mediterranean security and energy cooperation. The first step is to put such vital issues right on top of the Belgrade agenda, letting "Basket 3" simmer on a back burner.

Andreotti's trip is intended to set a model for the type of Mediterranean cooperation required. During his talks with Greece's Prime Minister Constantine Karamanlis, he concluded an agreement on national rights to the Ionian Sea, which lies between the two countries. Italy's concession of continental shelf rights to islands in Greece's possession serves as a model which could be used to settle the festering disputes between Greece and