Click here for Full Issue of EIR Volume 4, Number 25, June 21, 1977

The Solution To Jake Javits' Fears

The following statement was issued on June 17, 1977 by Lyndon H. LaRouche, Jr., U.S. Labor Party Chairman and Presidential candidate.

Senator Jake Javits's problem, as manifest in his hysteria before the Senate Foreign Relations Committee on June 16, is that he knows the problem, but so far lacks the courage to face up to simple and straightforward solutions. His behavior is typical of frightened, vacillating members of the corporate board of directors faced with a clear-cut case of Chapter 11 financial reorganization. A certain mixture of perception and guts is required among corporate leaders to pull an essentially sound firm out of financial disorder. A somewhat larger dose of the same qualities of perception and guts are wanted to deal with financial disorder in a monetary system.

Since some leading circles have not yet understood the clear-cut approach to restoring economic prosperity, it is warranted and necessary that I restate the solution once again, this time in terms of the problem as put by Senator Javits.

Javits was approximately correct in negatively defining the problem. The front end of the imminent world monetary blowout is a mass of international financial paper in the order of between $150 and $200 billion valuation. Without some form of Third World financial debt-rescheduling, the collapse of the monetary order will occur in such a chaotic form as to trigger a general, deep and prolonged depression.

What Javits has so far refused to recognize is twofold. First, he refuses to grasp the kind of debt-rescheduling measures required. Second, he refuses to face the fact that without steps to establish a new world monetary system on a gold-reserve-based, hard-commodity-credit standard, there is no possibility of avoiding a depression, with or without debt rescheduling.

The Matter of the Figures

I agree that Congressmen and others are taking a useful tack in attempting to worm definite figures out of Javits. Javits's reference to about $160 billion in Third World debt reveals only the proverbial tip of the iceberg. The Congressmen should look at the overall ratios of the key New York City financial institutions as a whole, and thus discover why an immediate payments short-fall in the order of a few tens of billions at most on current account threatens to collapse a monetary pyramid in the order of $3-4 trillion valuation.

The point which Javits avoided is that the current Third World financial debt problems would not represent a serious problem for the monetary system as a whole unless the whole monetary system were so rotten and vulnerable that a few tens of billions' short-fall on current account could trigger a collapse of the system as a whole.

The general problem with the bookkeeping of major financial institutions is that projected forward revenues are based on economically indefensible, fictitious assumptions of debtors' future abilities to pay, and otherwise on fictitious trends in reserves expansion which could not materialize under present economic circumstances. In effect, recent years' rollover of a self-expanding bubble of such dubious paper amounts to rescheduling the next quarter's payments through small bottom-of-the-barrel current payments, but with gigantic balloon-notes against the future.

Now, the balloon-notes are beginning to come due.

The thinking of many of these desperate financial officers is that the fiscal and monetary powers of national governments represent some sort of bottomless pit, such that expansion of governmental debt can be expanded indefinitely without regard to the fiscal-economic basis of governmental revenues. They beg, they demand, they cry: "If only the Federal Republic of Germany and the government of Japan would agree to wreck their national currencies and economies with a sufficiently massive hyperinflationary, super-austerity bailout of the IMF, and if only the Arabs would pour their holdings into our bottomless pit, the New York Banks and the IMF could manage to postpone the collapse for one or two more quarters."

What they refuse to see is that, in the final accounting, the fiscal resources of governments are limited by the rate of growth of tangible output of industry and agriculture in the national economy.

If the levels of output for the economy as a whole are significantly above breakeven amounts, this is sufficient to maintain existing productive capacities, to expand and modernize those capacities, and to set aside a significant portion for government activities and for debt service on the national debt. If the rate of expansion is significant, then the debt service can be significantly increased. Under those conditions, the national debt is in fact as "good as gold" for reserve purposes, a condition which will be naturally reflected in a stable or rising value of the currency with respect to a fixed weight of gold bullion of standard fineness.

However, if the rate of output of industry and agriculture as a whole is either below breakeven or dropping below that level, the debt-service of government represents nothing but a means for driving production levels still further below the breakeven level, and the instrument of an hyperinflationary spiral of super-austerity.

© 1977 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

Under these conditions, the national debt of governments becomes a hyperinflationary bubble.

This is precisely what the New York banks, the International Monetary Fund, the World Bank, and the Eurodollar institutions have done already to the national public and private external debt of the developing sector nations.

By the terms and conditons of loans imposed upon the developing countries by these financial institutions, de facto and formal austerity measures have been imposed which gutted the economic basis of those economies, depriving those nations of the means to create hard-commodity payments against pyramiding foreign public and private debt-service obligations. With the devaluation of these currencies, with respect to the currencies in which foreign debts were denominated, the previously existing long-term illiquidity of these economies was transformed into hyperinflationary, super-austerity spiral. In short, the policies imposed upon these nations by major financial institutions have caused those national economies to become bankrupt. The foolish investors in that debt have driven their investment into a bankrupt condition.

Now, along the lines argued by Senator Javits and others, these same financial institutions demand that the United States and other OECD nations adopt the selfsame hyperinflationary super-austerity policies which bankrupted the majority of the developing nations.

Vital Interests of the USA

The recent years rounds of debt rescheduling and other rollover measures imposed upon Third World countries, and more recently the United Kingdom and Italy, have contributed directly to ruining the already weakened value of the U.S. dollar, bringing us into the aggravated condition of the present economic recession.

By imposing hyperinflationary austerity measures upon these nations, international financial agencies have wiped out the thin margin of productive capital formation and have slashed the import levels of those countries. What are these imports which have been slashed? They are primarily exports from the OPEC and OECD nations, in which the exports of the United States are a major element. We have but to examine the data on the U.S. balance of payments trends during the recent period to see how this most directly affects the value of the U.S. dollar and our internal economy.

The financial interests which have, in the main, directly caused this mess now come begging to the U.S. government, as to the governments of the German Federal Republic and Japan, demanding that the imprudent and reckless policies of those financial institutions be treated as the overriding interests of the United States! Shall we fund stupidity as our "national interest?"

The main facts of the economic and monetary history of the United States are most relevant to defining the solution.

It is a shame and a crime that the textbooks and lectures in our public schools and universities deny the American citizen access to the most basic truth concerning the American Revolution, the establishment of our republic, and the crucial period of 1789-1828, during which the foundations of our nation's exemplary greatness were established. If that vital period of our nation's history were more generally known among our people, our nation could not have been led into the present mess, and the clear solutions, corresponding to our vital national interests, would be well known and most probably already adopted.

The key to understanding our nation and its potentialities is understanding the fact that our Benjamin Franklin was during much of the 18th century virtually the leading world figure of a faction including the greatest scientific and political minds of England, France, and Germany, as well as the forces of the American Revolution itself. Franklin, a world-reknowned scientist and political economist, essentially became a central figure among what is efficiently described as the Erasmian humanist tradition of all European culture, most immediately, at the time, the tradition of Gresham, Humphrey Gilbert, Sir Walter Raleigh, Colbert, Descartes, Spinoza, and Leibniz. Franklin's European collaborators were centered predominantly in France: Quesnay, Vergennes, Turgot, Lavoisier, Condorcet. It was this circle of allies which put their knowledge, influence, and other resources together, for the purpose of establishing on this continent a nation based on republican principles of technologically directed progress in modern urban industry and agricultural development through industrial progress, to thus provide, in a climate of fostering of basic scientific discovery and the richest general education and culture of the population, the material and political basis for a humanist society.

In political economy, these humanists on both sides of the Atlantic were distinguished by their absolute opposition to that medieval relic, a funded national debt based ultimately on ground-rent speculation. This medieval relic was then the ruling policy of the financiers of London, Amsterdam, and Geneva. This medieval policy, which included the holding back of scientific progress in industrial development, had become influential in England under the Stuarts, and was the ruling policy of England under the House of Orange (1688) and the Hanoverian House of Guelph.

The American Revolution was not merely a war of independence. We were compelled to make a war of independence because England was determined to continue a policy of crushing our efforts at industrial development and looting us, as they looted those nations which remained English colonies and semi-colonies during the 19th century. *The American Revolution was a humanist revolution against the reactionary economic and financial policies of the Guelph House and its London, Amsterdam, and Geneva financier allies.*

The significance of that fact for our present problems is that the "American System" of political economy, instituted during the first administration of President George Washington, proved itself a workable and vastly superior political-economic policy to that of the British. During the 1789-1828 period, partly with the aid of Franklin's French and British cothinkers, the United States, whose general population was then by far the most literate and best educated in the world, were overcoming limited means for development to make this nation a pioneer in technologies in many respects more advanced than those existing in the nation of our principal enemy, England.

The "American System" was largely destroyed during the administrations of Andrew Jackson and Martin van Buren. Jackson, Van Buren's protégé and the figure of which Jimmy Carter is a historical parody, destroyed our National Bank and made the sabotage of our technological progress deliberate government policy. Although the heirs of Franklin, Washington, Hamilton, John Quincy Adams and Henry Clay — the American Whigs — attempted to restore the "American System" during the 1860s under Abraham Lincoln, the takeover of our national credit by a British-allied consortium of New York City financial interests begun under the Jackson Administration persisted to the present day.

Nonetheless, although these New York City financial interests have succeeded in imposing the British System — against which we fought the American Revolution — upon our national credit to the present time, the foundations of our Constitutional republic persisted underneath this parasitical burden. The commitment to rapid technological progress in expansion of industry and agriculture remained until recently our distinguishing national characteristic, the foundation upon which the greatness and power of our nation was developed.

What is presently collapsing is not the American economic system, but the British System, as represented by the power and influence of New York City financial houses. If we understand the "American System" and its political-economic and banking principles, the solution to this crisis is clear.

The Basic Solution

Our vital interests prescribe that we offer the nations of the Third World the same opportunities which our founding fathers sought for our nation.

1. "Freeze" the unpayable external financial debt of these nations, using the same procedures applicable to a Chapter 11 type of financial reorganization.
2. Establish a new series of these nations' national debt, placed with national banking institutions in those countries modeled on the principles of the First and Second National Bank of the United States.
3. Secure the future viability of that new series of debt by restricting new credit issues to those nations to hard-commodity and essential engineering services imports, directed to agricultural and industrial development projects which represent the use of technological progress to achieve rapid growth in the per capita productive powers of labor in those countries.
4. Establish agreements providing for world-wide parity of primary commodity prices, allowing prices to fall in reflection of general increases in productivity, but using the monetary power of banking institutions to wipe out speculators in these commodities.
5. Use the new series of national debt of these countries to put their currencies on a durable basis of valuation for purposes of world trade and payments transfers, thus aiding a general low level of interest rates.
6. Create the Third National Bank of the United States, using the national debt as a means of funding production and capital expansion for hard-commodity exports, and maintaining fixed, gold-pegged convertibility of instruments of national debt. This will harden the value of the U.S. dollar on the basis of growing margins of exports, under circumstances of internal industrial and agricultural production substantially above the national breakeven level.
7. Fund the debt service of the national debt against the increases in national absolute profit through expansion of agricultural and industrial production.
8. Force the International Monetary Fund and World Bank to "freeze" pending negotiated liquidation of these useless institutions. This is accomplished by a combination of "freezing" the external financial debt of debtor nations, and making neither deposits nor withdrawals from holdings of national treasuries and banking systems in these useless institutions. These institutions will not, for the interim, collapse, but will simply sit there harmlessly, with nothing flowing in or out.
9. Establish emergency national banking reorganization legislation and procedures for maintaining the functioning of essential institutions of credit and deposit undergoing financial reorganization.
10. Establish key major projects of revitalization of basic U.S. industries — such as our steel industry — and major governmental programs fostering advanced technological development around new energy policies, including MHD combustion-generation techniques, full-cycle fission development, and fusion technology and energy-production development.

The Fate of the Frozen Debt

There is no doubt that under sufficiently rapid general technological progress and high rates of productive capital formation, the world economy could readily develop the capability to liquidate all frozen debts at face value after a period of 10 to 15 years of moratorium. However, what will be done in fact is essentially a political question, rather than an economic or financial one.

The following considerations apply.

First, it will be desirable to maintain certain portions of frozen non-performing assets on the books of certain financial institutions as an asset. To the extent this arrangement can be quickly secured, the difficulties of financial reorganization of essential institutions of credit and deposit are considerably mitigated.

Second, we must place a high priority on the savings of householders, who have made deposits from earnings in good faith. Concerning pension funds, we must either secure those funds or provide the beneficiary with equivalent funds by other means.

These problems were weighed by U.S. Secretary of the Treasury Alexander Hamilton during the 1789-1791 period. Provided we can bring the financial community to an early and orderly agreement to subordinate itself to vital U.S. national interests during the very early future, before a collapse actually erupts, the most workable political solution is, barring exceptions for Third World debt and certain categories of purely speculative real estate and similarly dubious risks, that an early and categorical commitment to liquidation of the frozen assets at par value of the balance of the actually advanced investment should be established by Act of Congress. The argument for such a political solution is essentially identical with that advanced by Secretary Hamilton and adopted by the republic at that time.

Such an agreement should be conditional on two considerations. First, the agreement should be optional upon its acceptance by the relevant members of the financial community prior to a general monetary blowout. That means, in fact, virtually immediate acceptance at this juncture. It is also conditional, with respect to date and scheduled amounts of payments made against frozen accounts, on overriding national economic interests.

One of the most desirable alternative methods of payments against frozen amounts would be as follows.

Through the National Banking System, the obligations and claims of debtors and creditors can be converted into matching instruments. At the time that these instruments reach rescheduled maturity for partial and total payments, the debtor meets his obligation to the National Banking System. The National Banking System, instead of making direct payment to the creditor of the matching instrument, issues credit for capital formation in industry, and on this basis exchanges these new negotiable debt instruments for the creditor's old frozen paper. This procedure can readily apply to internal frozen balances qualified for such purposes, and can also apply to international debt according to agreements reached for this purpose by the U.S. government and National Bank with the governments and banking institutions of other nations.

These procedures should not be applied to equivalents of ground-rent investments or to speculative holdings. Nor should they eliminate the operations of the bankruptcy laws, but should supplement the application of the bankruptcy laws wherever it is in the national interest to maintain and develop economic and financial entities which could not otherwise be so financially reorganized under alternative provisions. It is also to be emphasized that these procedures should not be presumed to apply to the typical case of present Third World external financial debt.

How The "American System" Works

The feasibility of such financial reorganization measures depends entirely and absolutely on the strict application of the economic principles of the "American System."

The essense of the "American System" is Hamilton's principle that the only durable and continuing source of national wealth and a growing national absolute profit is high rates of technological progress in increasing the productive powers of labor in industry and agriculture. Using those principles, it is presently feasible to effect rapid increases in national productivity and total output, such that over an intermediate- to long-term period, all present financial and related claims outstanding become relatively small in comparison with the enlarged margin of absolute profit out of which payments are to be made.

The realization of such economic growth depends both on an emphasis on rapid advances in technology and on high ratios of capital formation in capital-intensive forms of employment of operatives in industry and agriculture. This means generating a high ratio of working scientists and engineers per 1,000 operatives employed in industry and agriculture, a policy of fostering basic scientific research in physics, chemistry and the biological sciences, a high ratio of research and development based on the well-springs of basic scientific research, and a large national surplus efficiently concentrated in creating expansion of new productive capital in terms of modern, capital-intensive forms of high-technology employment.

Our first concrete step toward full economic recovery is the optimal, relatively full-capacity utilization of our existing industrial and high-technology agricultural capacity. The opening up of foreign export of high-technology capital exports and related engineering services to the developing sector — probably on the order of $100 billion annually over current rates — is the keystone of general economic recovery.

Since other industrialized nations, the OECD countries and the Comecon sector, are both predominantly committed to such a high-technology exports policy, and since the capital-exporting OPEC countries have essentially the same policy, the adoption of this course by the United States will absolutely determine world policy to that coordinate effect. Under these conditions, exports into the Third World will generate proportional increases in trade among the industrialized nations as a whole. Thus, $100 billion in added U.S. exports will generate potentially a nearly equivalent increase in U.S. industrial and agricultural trade with respect to the industrialized nations.

This will provide sufficient margins of national absolute profit from industrial and agricultural production to launch a major productive capital formation drive for modernization and expansion of capital-intensive, high-technology employment inside the United States.

The principal social obstacle to be overcome for this purpose will be the absorption of what are presently considered marginal elements of the national labor force. Once the cadres of skilled and semi-skilled operatives have been reemployed, we must concentrate on an orderly but rapid reorientation of other sections of the labor force away from marginal and labor-intensive forms of employment and semi-employment. We must also shift the overall composition of the national employed labor force to effect both a higher ratio of skilled and semi-skilled industrial operatives, and to increase the ratio of suitably employed scientists, engineers, and technicians per 1,000 operatives.

This will tend to produce a labor shortage in technologically marginal categories of employment, reenforcing the emphasis on modernization of methods of administration and of retail and service sectors. It will also place a high emphasis on technological elements in education, away from "socially significant basket-weaving" and "touchy-feely sensitivity training" toward an emphasis on high-technology culture.

Under these conditions, we can substantially exceed the rates of technologically determined rises in productivity in industry and agriculture realized during the best periods of the 1950s and early 1960s, so that a 10 percent annual average growth in technological productivity in industry and agriculture is an eminently feasible goal.

This estimate is by no means speculative and is indeed conservative. The average rate of technological increase in productivity in industry and agriculture is primarily determined by the ratio between new productive capital formation and the replacement-equivalent value of exist-

ing productive capital. This ratio determines the rate at which new technologies are weighting overall productivity, and determines the demand for the development of still newer advances in technology. Similarly, the greater the net rate of new productive capital formation, the higher the ratio of improved technology in maintenance and modernization of old capacities. If high rates of productive capital formation, with high rates of output utilization, occur in a climate of fostered, high rates of technological progress, a 10 percent annual growth rate in technologically linked productivities is very conservative as a goal. If this is combined with appropriate shifts in the composition of the labor force, increasing the ratio of operatives and of scientists, engineers, and technicians, the impact of technology on industry and agriculture is maximized accordingly for the labor force as a whole.

That is the "American System," which our forefathers fought the American Revolution, adopted our Constitution, and established our republic to achieve. It works. Use it, and we can quickly get out of the present mess.

Senator Javits can stop worrying, on condition that he gives up his attachment to the bankrupt British System, and takes out American citizenship in the fullest sense of that term.

Javits Tells Senate: Save The Banks Before It's Too Late

Speaking before hearings of the Senate Foreign Relations Committee's Economic Affairs Subcommittee June 17, Senator Jacob Javits warned that the looming confrontation between the United States and the Third World and the imminence of a second Great Depression demand U.S. government action to shore up the international monetary system. Javits's remarks, excerpted here, were made in the context of discussion of the just-concluded final session of the Conference on International Economic Cooperation in Paris, the "North-South talks," which Javits attended as a member of the U.S. delegation.

The United States is facing a very dangerous and difficult confrontation with the less developed countries (LDCs). We must both increase our resources in international lending institutions, while calling up a resolute feeling that the LDCs can help themselves internally much more, so as to bring on a feeling of confidence in the international monetary system.

The CIEC communiqué (from the last North-South session — ed.) reflects one major thing: the profound difference of views between the Group of Eight (major industrial countries) and the LDCs and the Group of 19 (leading Non-Aligned countries) as a whole.

There is a revolutionary surge around the world and with it the danger of a very real depression in two or three years, brought on by the rise in oil prices. As a result of this, the LDCs have been borrowing from our banks.

The American people have to be realistic about what is at stake. We must prepare to consider alternatives and to make big changes to cope with this revolutionary surge. The CIEC dialogue is over. Now we face the danger of the world not hearing the clear call to danger which stalks the economic and monetary system of the world.

In answer to a reporter's question after the hearings:

We must have debt rescheduling. The less developed countries simply cannot pay.

"Some Disturbing Conclusions"

Prior to the hearings, Javits delivered a speech on the Senate floor, which is excerpted here:

The events in Paris have been a culmination of experiences for me which since 1974 have led me to some disturbing conclusions I wish to share with my colleagues today, for I want to sound a note of alarm with regard to the international monetary system and the strains on that system which threaten the U.S. and the world with a deeper recession than 1974 or a full-scale depression in 1979-1980.

To be sure, it is self-interest which prompted the call for the new international economic order. However, I have concluded that it is our self-interest to take this call seriously, and also to look pragmatically at the state of the international monetary system, which has been in a state of disrepair since the breakdown of the Bretton Woods arrangement in 1971, and especially since the drastic OPEC price increases. I submit that if we do not do this, the recession or depression we are likely to experience will be brought about by many of the issues which are important to members of the developing world.

Let me emphasize at the outset that (at the CIEC) we were not dealing with irrational demands by a group of insignificant countries. The developing countries contain three-fourths of the world's population and represent the source of many of our raw materials and foodstuffs. Private bank loans to these countries total over $70 billion ($42 billion from U.S. banks), and direct private investment of in excess of $30 billion. They owe $80 billion to governments, of which $29 billion is owed to the U.S.

I believe that the American people need to realize the depth of dissatisfaction in the developing world, which is very great and in some cases very revolutionary. This deeply entrenched dissatisfaction has some basis in reality, and we need to identify the real economic issues which in the final analysis threaten both the developed and the developing world.

Therefore I can only conclude that we must maintain and increase bilateral and multilateral aid programs, international institutional lending, direct private investments, and bond financing if we are to accomodate the very real needs of even the category of better off countries. And that multilaterally we must especially equip the international financial organizations to play a much greater role, expand trade, accelerate technology transfer, and give greater encouragement to private sector investment.

In other words, we much come to grips politically with the fact that the system now requires virtually permanent and substantially higher levels of capital flows to the developing world. The consequences of failing to recognize these developments could be the major policy mistake of this generation.