words, seeing the potentially dangerous consequences of an all-out confrontation for their respective monetarist interests, Citibank and the British made an agreement, stabilized the currency situation, drove in an IMF team as a cover to endorse the plans of the Bank of England, and fired scapegoat Scott.

Observers comment that the recent UAE's strong statements in the press for an "OPEC dollar" based on a basket of currencies reflect City of London thinking in connection with Citibank.

The problem for the Citibank-London axis is that more radical West European interests led by French bankers are strongly pushing for a gold-based monetary unit as a basis for calculating oil prices. To face these forces, Citibank has to play on a knife edge. It cannot attack them frontally, because of the too immediate dangers of a general financial destabilization. Citibank has therefore to control them from inside. This is the main reason why it is moving trust fund money into the French stock market, buying French equities that would come under nationalization plans should the French left win the coming elections. Citibank's operation is indeed very delicate: it has to express a display of confidence in the Giscard government to better control its moves. According to New York banking sources, Citibank is working out a deal with Saudi Oil Minister Yamani to bring in Saudi money as well.

But the French banking interests, beyond their marginally decisive position, have two significant trumps in their hands should they be decided to play the game of gold up to the end. First, as confirmed by the Brown Brothers, Harriman source, the Kuwaitis are very strongly committed to a gold-pegged Gulf dinar, and are already engaged in triangular trade with the West Europeans and the Soviets. This brings in the equally gold-pegged transferable ruble, that according to other sources some Arab governments are presently accumulating through Swiss bankers.

The second trump of the West European pro-gold faction is what the Baltimore Sun calls "a very nationalist group" in Saudi Arabia which is "winning support in arguing that now is the time to cut away from the dollar as much as possible." This group, according to Brown Brothers, Harriman, is strengthening and controls the key Saudi source of funds, the Saudi Arab Monetary Agency (SAMA). "This is an emerging group of independent-minded people, committed to the defense of Saudi Arabia's national interests as expressed...by the industrialization of the country." Brown Brothers, Harriman identifies all the Saudi economic policy makers as leading figures in the "nationalist group": Oil Minister Yamani, head of SAMA Quraishi and Finance Minister Al Aba Khail. The source further commented that "they are some sort of civil service types," having more in common with West European civil servants or public sector administrators than with "cosmopolitan bankers." The Indo-Suez bank initiative "will further link up French interests with this group. And this group is running SAMA, even if London's Barings and Credit Suisse White Weld play a more important role. The banks are only advisers of SAMA and they advise only when they are asked for."

An Open Memo To The Journal Of Commerce:

Reject Self-Proving Pessimism!

The following statement was issued Aug. 26 by Lyndon H. LaRouche, Jr., U.S. Labor Party Chairman and Presidential Candidate.

Your publication yesterday aired the view that probably all the commercial banks will either sink or float together. That statement is true only on the condition that Citibank, Conti, "Manny Hanny," Dresdner, and others are conned into believing in that estimation. I, for one, can offer several workable gameplans under which Citibank, Morgan Guaranty, and "Manny Hanny" would hold up quite comfortably during the period that Chase Manhattan, Irving Trust, Bankers Trust, Chemical, and a group of Manhattan investment banks went into financial reorganization. However, those gameplans would benefit Citibank, Morgan, and others only on condition that they were operating on the basis the gameplan prescribes.

The "sink or float together" doctrine is not new. It originates, to the best of my information, with a circle of Manhattan investment banks and their restive allies in the City of London. Such misguided — indeed, hysterical — chatter from those sources dates from 1975 and was most energetically circulated beginning spring 1976. It is relevant that this was the basis for an alliance between the investment banks and a Chase Manhattan-centered group of commercial banks, the financial coalition behind the Carter-Mondale operation, as reflected in the Trilateral Commission and the New York Foreign Policy Association. Now, in the aftermath of the round of political-economic bid-and-ask centered last week in London, the boys from the investment bank side have insinuated the same argument again,this time obviously aspiring to spoil the nerve of Citibank and its allies.

The depressing thought you air in yesterday's outlook is in effect a sigh of despair, a Hamlet-like impulse for vacillation, abandoning a potentially winning fight before the fight has fully begun, a flight from the battlefield of a winnable war before the first clash of arms among principal forces.

The root of this self-defeating misestimation is of a sort classical among erring bankers. The banker, because of the character and habits of his experience over long periods of relative monetary stability, always tends to blunder in monetary crises by substituting the technical side of monetary-financial algebraics for political-economic fundamentals.

Example: July Trade

According to the boosters of the Carter or Mondale side of Carter-Mondale, the foreign trade figures officially released yesterday show a slight improvement in foreign trade balances. That is utter numerological nonsense; in fact, from the standpoint of economic fundamentals, they show an acute worsening of the value of the U.S. dollar.

The key datum is not the net of exports and imports as such, but the relationship of both export and import data to U.S. domestic durable goods production, with a sharp focus on the basic-steel parameter of overall trends in industrial production. That view shows the true picture.

In terms of fundamentals, the international value of the dollar is based on two, ultimately interconnected considerations: first, value of the dollar in the hands of foreigners for purposes of purchasing U.S. hard-commodity exports, against export bills of exchange; second, the value of the dollar in the hands of foreigners for investments in the U.S. domestic economy.

These two fundamental premises for the international value of the U.S. dollar correlate with the other problem, the financial position of the U.S. dollar. In this, the fundamentals are twofold: first, the ability of foreigners to convert a financial holding in dollars into either hard-commodity paper or gold from the USA, and, second, more immediately, the relationship between dollar financial obligations and hard-commodity trade levels over, respectively, the short, intermediate, and long term. In that latter, second, facet we view the relationship between financial liabilities of U.S. institutions and trade levels as a form of the overall debt-equity ratio.

In brief, if trade activity levels are rising more rapidly than financial liabilities, especially financial overhang, then the dollar is becoming stronger. If trade-levels are falling relative to the magnitude of the financial overhang, then the dollar is on course for a bust.

Part of the problem in properly evaluating the July figures is the fetishism associated with an incompetent National Product Accounting method (i.e., Wassily Leontief, et al.), the incompetent method of GNP accounting used. In present GNP accounting, a corporation is considered to be contributing to a boom if it compensates for a shutdown of its productive plant by rehiring its industrial operatives as office workers and salesmen, and the national economy is projected as overcoming the "recession" under conditions that half of present industrial output is shut down and the unemployed hired for public leaf-raking jobs. Although GNP accounting includes data which reflect fundamentals, the reports of the Council of Economic Advisors and of the congressional Joint Economic Committee are overall incompetent garbage, precisely because of the lunatic confusion between parameters of real output and mere indirect costs of government, administration, and services.

Freezing "Nonperforming Paper"

Anyone who imagines that the world will escape the deepest and longest depression in three centuries without a drastic financial organization of the "Western banking system" is most probably acting out of hysterical blindness toward economic and related financial fundamentals.

In terms of the objective preconditions for economic growth, the combined OECD and developing nations taken as a whole are currently operating below the breakeven point, such that apparent profits in some sectors exist at the expense of increasing rates of negative growth in others. Under these economic conditions, the combined sectors' gross profit output, after deducting administrative costs exclusive of financial costs, is below zero.

Worse, the ratio of still apparently profitable corporate institutions to total corporate institutions is shrinking at an accelerating rate.

We are already and have been for some time in a depression, a world depression as the industrialists of West Germany have generally recognized during the past month, and as the recently unemployed steel workers in the United States understand.

Yet at a time that the net pro
as a whole is below zero, and falling at an accelerating rate, the ratio of financial obligations, current and term, is rising at an accelerating rate, largely through refinancing arrangements on old debt.

Worse, as long as the effort is maintained to keep up payments on current financial obligations as a whole under these conditions, the net flow of capital into production must be less than the effective net flow of capital out of production. Under the conditions of attempting to maintain current schedules of financial payments to the Eurodollar market and other essentially bankrupt institutions, there is no bottom nor end to the present world depression.

There are three alternatives to such a depression. (1) Wipe major portions of financial debt off the books. (2) Rewrite payments schedules on major portions of financial debt to a future dating, payments to resume after economic recovery has been established. (3) Let the automatic consequences of the depression wipe out the majority of financial institutions holding the largest ratios of nonperforming debt.

Technically, the first alternative is the cleanest and most efficient. However, that procedure would wipe out nearly all existing key financial institutions of both the OECD and developing nations. Therefore, in the interest of maintaining the most essential institutions of capitalist credit and deposit, the second alternative is the only practical solution.

However, there is a point at which banks such as Chase Manhattan and certain Manhattan investment banks have worked themselves into such an unsalvageable business position by inflating their books that those most-rotten institutions must be "triaged" as a way of reducing the financial community to a set of institutions which are viable as a whole.

Consider Citibank, Bank of America, and Morgan Guaranty as typical of the major U.S. commercial banks which could best survive a financial reorganization of such badly mismanaged institutions as Chase Manhattan. How are those sounder banks prevented from being pushed into a chain-reaction collapse by the collapse of Lehman Brothers and Chase? Does the U.S. government "bail out" Citibank? As "bail out" is currently generally understood, the answer to the question is no.

Nonetheless, U.S. government action is key.

The policy of the U.S. government is not that of selectively supporting specific banks and pushing others under. Such corruption is characteristic of the Carter-Mondale crowd but not of an honest Executive and

Congress. The government must act, as Alexander Hamilton, George Washington, and the first and second Congresses of the United States acted in restoring U.S. credit and establishing the First National Bank. Certain categories of viable banking institutions are vital assets of the general national interest; that and that alone is the proper basis for the alpha and omega of U.S. government policies toward private banks.

The key to financial reorganization is international. The U.S. government must enact law which authorizes Third World governments to reorganize their external financial debt in a specific way. The essential condition for this purpose is that those developing (and certain other) nations establish the kind of national banking instituted on the initiative of Alexander Hamilton in restoring U.S. public credit and establishing the First National Bank.

The basis in economic fundamentals for such U.S. government action is summarily as follows. The vital interests of the U.S. economy demand a massive increase in capital-goods exports, which can not be realized without a massive increase in total exports from industrially-developed into developing nations. The centerpiece of such a recovery program is full fuel cycle fission energy and development of fusion energy programs. This requires that developing nations have a substantially increased long-term debt-carrying capability on new, low-interest, low-risk debt. Under conditions of massive use of high technology to increase the industrial and agricultural output per capita in those nations, the growth of debt can be kept lower than the growth of gross profit.

To accomplish this, the following national measures are needed. First, the burden of present, nonperforming financial debt must be pushed into the future, into that portion of the future in which ability to pay develops. Second, those economies must operate on the basis of the kind of national-banking policies advanced by Alexander Hamilton, thus ensuring the integrity of new series of debt and the value of rescheduled masses of nonperforming debt.

The period over which this financial reorganization must be rescheduled is in the order of 20 to 25 years.

On the basis of the internal industrial recovery generated inside the USA, West Germany, and other OECD nations by the massive expansion of fission-led exports into the developing sector, the tax base for carrying long-term export credit from OECD nations is massively expanded without increasing the per-capita tax rates on individuals and firms. By establishing national banking in the USA (and other OECD countries) along the lines of Hamilton and Biddle, the debits generated through increased export activities and tax-base rise can be caused to flow through viable banks. This can be sufficient to enable those banks, as participants in a Third National Bank, to carry large masses of rescheduled financial paper.

This national action must be complemented by the establishment of a regulated international financial market operating on a gold-reserve basis, such as my own proposal for a private International Development Bank.

The murdered Jürgen Ponto, who did not necessarily agree with the full extent of my proposals, was assassinated because of his exceptional leadership role in moving in that direction. The same forces that effected the murder of Jürgen Ponto have ordered my assassination and the illegal "Fist" and "Sweep" black operations against the U.S. Labor Party and its allies, chiefly because it involves a relative diminution of their political and financial control over the world.

Morgan Guaranty's Problem

The essential predicament of banks such as Morgan Guaranty and Citibank is not really financial, but political. To the extent that these banks limit their maneuvers to the internal structure of the shattered Bretton Woods system, the "knife-edge" thesis — that all commercial banks would tend to collapse together — is plausible, to say the least. What the saner commercial banks are presently doing will succeed only on condition that a Third National Bank is in the process of being established.

The analogy is swimming. Swimmers who insist on swimming about in circles in a large lake must drown, both the better swimmers (Citibank, Morgan, Bank of America, Dresdner and others), and the bad swimmers (Chase, Irving, Chemical, Lehman). The good swimmer's advantage succeeds only on condition that he moves to reach the shore before exhaustion overtakes him. The shore in this case is the Third National Bank.

The issue is one of *poli ical method.* With the Carter end of the Carter-Mondale Administration on the ropes, and adequate evidence for also dumping the Mondale side already on the books, it is possible to quickly clean out the Carter-Mondale mess, and thus to move forces into the Executive that are capable of acting efficiently in urgent national interests. The proper procedure is to dump Mondale first, inducing Carter to make an appropriate vice-presidential nomination before he exercises his conscience and resigns to make way for an effective new Administration. This means cleaning out Carter's "Atlanta Mafia" (Lance, Griffin Bell, Bourne, and so forth) while purging Walter "vote early and often" Mondale and his cronies.

This may take several weeks to accomplish. The problem posed by that time span is that the world financial collapse is already on, due to hit with full force around the end of the third quarter of 1977. However, that in itself is not a decisive problem. If the right combination of political forces just has confidence that the problem is about to be solved, short-term bandaid measures can be taken by key banks, corporations and others to hold the machinery together long enough for a new Administration to begin moving in concert with a properly reoriented Congress.

The key is immediately putting together the national leadership counterpole to Carter-Mondale. Governor Ronald Reagan is by no means the worst imaginable choice for immediate vice-presidential appointment, and Governor John Connally has a growing combination including viable elements in his circles. The difficulty with a Reagan combination, for example, is that the forces which might rally around him have the right instincts on domestic issues of industrial progress and constitutional principles, but lack the sharp perception of programmatic method required. This weakness around Reagan's and Connally's circles can be adequately corrected for immediate needs through the U.S. Labor Party and its conservative programmatic allies and the Labor Party's trade-union base.

In short, a rapidly assembled coalition of Republicans and appropriate Democrats, which includes the U.S. Labor Party and its allies as a key programmatic-catalytic element, gives the nation a spectrum of options, in terms of viable personalities, for quickly getting us out of the present mess on the basis of a political alliance of industry and labor for high-technology resumption of our tradition of industrial and agricultural expansion and progress under constitutional law.

That political solution provides the fundamentals which are in turn uniquely the basis for solving the financial crisis.

The collapse of mismanaged Chase Manhattan need not bring down the commercial banks generally. Even a bankrupt Chase could be salvaged as an institution (through appropriate financial reorganization) under the kinds of alternatives I have indicated.

The problem of Citibank, Morgan, Bank of America, and others is that they have so far failed to move openly and quickly enough on the political side of the problem. The various datings I pick up on the European and North American circuits (October 1977, December 1977, early 1978) are too late and are being prepared too quietly. We must have open political action now, before the close of the third quarter — the kind of open political action which reorients national consciousness around counterpoles including the U.S. Labor Party's programmatic alternatives. With the appearance of such a counterpole now, the ship of state and the economy can be held together subjectively, politically, long enough to permit the reorganization of the Administration.

Unfortunately, that combination of commercial and investment banks centered in Manhattan which ordered Ponto's and my own assassinations has appeared so far to have a clearer perception of the workability of my alternatives than those opposing forces committed to saving our nation from an "environmentalists" Schachtian nightmare of hyperinflationary austerity.