Lever announced that the post-war Bretton Woods system had permitted too much world lending, allowing the Third World to aspire toward development, and must be redesigned to halt this. He also pointed out the danger of a debtors' cartel which could hold the BIS banking system "hostage." To reorganize the system, Lever called for the formation of "an International Bank—a sort of central bank of central bankers."

That institution would see to it that this sort of debt expansion never reoccurs: it would impose credit controls over all new loans. Nations would have to "pool" their sovereign control over the issuance of future new credit. This was the purpose of calling in the loans in the post-Malvinas credit cutoff to most of Latin America: to enforce reductions in their total of future credit.

A debt exchange

However, to maintain control over the old loans, Lever said at the time, the International Bank would have to restructure them through a debt exchange. It was stressed that the BIS central banks and private banks of the North must control this process. Lever proposed that the Bank exchange its own long-term bonds to the private banks and take on their holdings of LDC short-term debt. In other words, the Bank would become the creditors' collection agency. The terms of collection of the old debt, however liberalized, would stipulate reduction of new credit volume.

Giovanni Magnifico of the Bank of Italy suggested to a London audience shortly thereafter that the debt exchange could be illustrated with the example of the World Bank as the collection agency. "The World Bank could help to fund a part of the LDCs' short-term foreign debt, by issuing special bonds and using the funds raised to grant 'funding loans' to the LDCs, who would be required to use these loans to reimburse their short-term bank debts," he said. Magnifico pointed out that if the collection agency were thus "linked" to the IMF, the IMF could have conditionality powers over LDC debtors to ensure payment of restructured debt.

The new agency could also be a "sister fund" of the IMF, turning the IMF into a "world central bank," former U.S. Treasury Secretary Henry Fowler, now at Goldman Sachs investment bank, told the Senate Foreign Relations Committee on Jan. 10, 1983. Control over world credit "is not provided for in the IMF charter," Fowler complained. "That gap has to be filled. We should look at the IMF and see if its charter needs to be revised. Now is perhaps the time to talk about a world central bank."

In a Sept. 27, 1981 speech given to the IMF annual meeting, then BIS president Jelle Zijlstra had made one of the first public calls for a "new Bretton Woods" currency system of "fixed but adjustable rates of exchange." Zijlstra called for an international monetary conference at which the central banks of the Bank for International Settlements would re-establish an official gold price.

Zijlstra in effect showed how the industrial nations of the OECD were to be placed under the same regime as the Third World, using currency rates rather than debt agreements per se. To enforce a currency peg, the BIS central banks must be given veto power—"harmonization"—over the domestic policy of member nations, including control over credit, over budget deficits, and wage and price controls, he said. This is the reality of the "Rohatyn Plan" currently being peddled to the Third World under the rubric of debt relief, and to the advanced sector as the only means to enforce "fiscal responsibility."

A pre-emptive effort

As *EIR* has reported for the past several years, Lord Lever, Magnifico, and Zijlstra are correct in one essential respect: The Bretton Woods system was quite definitely completely bankrupt, even before the creditors' cartel pulled the April 1982 plug. The economic policies of the BIS central banks have kept the world as a whole on a negative growth path for two decades, making it impossible in any case for the Third World to generate the revenue required to pay $700 billion in foreign debt.

Global central bank is unconstitutional

Plans to assign control over U.S. foreign lending to the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) are in flagrant violation of the Constitution.

Under Article I, Section 8 of the U.S. Constitution, Congress and only Congress has the power to regulate currency and credit. Further, under Article II, Section 2, the President has the sole power to make foreign policy, with the advice and consent of the Senate where treaty arrangements are involved. None of these powers may be legally given or delegated to a supra-national body such as the IMF existing *above* the nation-state, which is the highest juridical form recognized by a sovereign republic and by the Constitution.

Under legislation pending in the Senate and House Banking Committees, the Federal Reserve and the IMF would be given total control over setting all U.S. foreign loans and over classification of "country risk" in the Third World. Comptroller of the Currency C. Todd Connover

EIR founder Lyndon H. LaRouche, Jr. for years has called for the reorganization of the system, starting with a moratorium on the entire $700 billion.

In fact, the three central bankers' plans can be seen as a twisted Malthusian plagiarism of one part of LaRouche's proposal, which was published in June, 1982 under the title "Operation Juárez."

LaRouche proposed two basic steps. First, the nations of the industrial North and the Third World must agree to stabilize the debt; a "debtors' cartel" may well be required to bring the North to the table. The debtors should exchange their unpayable, short-term, high-interest debt paper with the banks for an equivalent amount of 20- to 30-year long-term bonds at 2-4 percent interest rates. LaRouche was the first to propose the idea of the debt exchange, but only under the strict sovereign control over credit by nations, acting on behalf of the growth and well-being of their populations—not by the IMF and other supranational institutions loyal only to the supranational, neo-colonial principle of subordinating and reducing the "lesser races" and suppressing technological advancement.

Second, LaRouche insisted—and this specification has since been taken up by leaders in Japan, India, and Latin America—that there be massive issuance of new credit to ensure industrialization of the Third World, incidentally the only way the debt can ever be paid in any case. LaRouche proposed that nations establish a new international institution, a gold-backed international facility at which the bonds could be rediscounted, to generate several hundred billion dollars annually in export credit.

Otherwise, the bonds remain as worthless as the current debt structure.

Any bank which maintains that policy may participate. The BIS, IMF, and World Bank are cut entirely out of the picture to the extent they do not reverse their present animus toward industrial expansion.

Lever proposes the reverse, as LaRouche has pointed out: the use of a new international institution controlled not by governments, but by the private banks, and set up not to issue new credit, but to ration credit.

This, LaRouche said, is "a system in which bankers try to maintain their political power—and they, along with the rest of the world, lose a lot of money." For the austerity plans which have already caused sweeping bankruptcy will result in a crash which will be far more destructive than the 1929-32 catastrophe.

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has pointed out that "this will very quickly become the most important decision made about economic relations between the United States and those countries."

The overriding principle of the new legislation is that the Federal Reserve, working with the IMF, will be given leading authority over the volume and direction of U.S. foreign loans, weakening all the current powers of the U.S. Treasury and related agencies such as the Federal Deposit Insurance Corporation. The effect will be to consolidate all regulatory power over U.S. banking under the Federal Reserve, in effect setting up the Federal Reserve as a giant new "super-regulatory agency" as was proposed during the last days of the Carter administration. The Federal Reserve will determine all this based on information it is given by the BIS and the IMF.

The law also states that the IMF should set up "limits" on how much countries can borrow, both Third World countries, and big countries like the United States. "The United States is really calling here for a new role for the IMF, a new order in which the IMF is going to be policing all world lending markets," one bank expert said.

No principle is more fundamental to America's Constitution than the notion of national sovereignty. Documentary evidence demonstrates that the notion of national sovereignty embodied in the Constitution is that of Grotius, Leibniz, Pufendorf, and Vattel, in which the sovereign lawful powers and authority of the U.S. government cannot be abrogated or subordinated to any other legal authority or supra-national body.

The exercise of national sovereignty involves certain fundamental powers necessary to carry out the great objects of the Constitution. The power to regulate credit and currency is one of the most fundamental powers given to the national government under the Constitution. This power was eloquently affirmed in Supreme Court Chief Justice John Marshall's historic decision in the 1819 case *McCulloch v. Maryland.*

The Federal Reserve System itself is of very doubtful constitutionality, functioning as it does as a "fourth branch" of government outside the constitutional framework of Executive, Legislature, and Judiciary. To then give such a "fourth branch" virtual dictatorial powers over U.S. banking and U.S. lending, is in total violation of the Constitution; the illegality is compounded by allowing the Federal Reserve to operate as an arm of the supranational IMF and BIS.

The e BIS and IMF proposals would mean that some of the most fundamental and important sovereign powers of the federal government are being assigned to a supranational cabal of Swiss and British bankers. That cannot be permitted by those whose oaths of office pledged them to uphold the U.S. Constitution.