Policy Analysis

The European Monetary Fund is indispensable

by Lyndon H. LaRouche, Jr., Contributing Editor

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Are President Giscard d'Estaing and Chancellor Helmut Schmidt about to launch a new drive for establishing the most-postponed European Monetary Fund? Nothing to that effect has leaked directly into news media from the recent "summit" meeting of the two leaders. The British financial circles seem to be extremely fearful that such a new initiative is being actively considered.

Today's international political intelligence roundup reports a virtual "freakout" from London political and financial circles on this matter. At the same time, anti-EMF allies of London are also in a highly agitated deployment aimed at blocking EMF initiatives, including Willy Brandt's German Marshall Fund.

The European Monetary Fund was the second phase of a two-part proposal jointly submitted by Giscard and Schmidt to a July 3, 1978 heads-of-state meeting of the European Community. The first of the two phases, the European Monetary System, was implemented over the year-end of 1978-79. The second phase, a new gold reserve-based credit-issuing institution, the EMF, has been repeatedly tabled under strong Anglo-American and International Monetary Fund oppositional pressures ever since. The British government of Mrs. Margaret Thatcher, which has virtually dictated U.S. economic and monetary policy over the recent period to date, has been in extremely determined opposition to the EMF.

Properly implemented, the gold reserve-based European Monetary System would create a two-tier credit-issuing system internationally. Credits issued by the EMF would be denominated in fixed gold-value European Currency Units (ECUs), and would be used only for hard-commodity production and exports, or for development projects emphasizing modern technologies in developing nations.

The included benefit of such an arrangement would be the fact that creating an adequate supply of low-interest medium- to long-term credit for export-oriented production and world trade in hard commodities would enable nations to put the lid on the soft uses of credit which have been accelerating the rate of inflation. This would mean bypassing the combined inflationary and economic-depressive effects of usurious interest rates dictated presently by the City of London and London's Federal Reserve "asset," Friedmanite Paul A. Volcker.

Although the EMF would be launched as a "corporate" undertaking among member-nations of the European Monetary System, it is the perfect institution for equitable and efficient recycling of "petrodollars," and for expanded partition of other nations, including potentially the United States and Japan.

It will not do the entire job required, but it is an indispensable cornerstone for ensuring workability of the sweeping reforms of taxation and debt rescheduling of Third World debt (or, Israel's debt) needed to stop inflation and resume stable, noninflationary forms of growth of world trade.

The principles involved I have earlier discussed at length in published papers on this subject, including materials circulated during the course of the 1980 presidential nomination campaign.* The same principles of monetary and tax reforms are reflected in the proposal for a bipartisan economic policy issued this past November by the National Democratic Policy Committee, titled "Action Policy: Rebuilding the Democratic National Committee Around a Keystone Posture of Proposing a Bipartisan Economic Policy."

It would be eminently sensible and practical for Giscard and Schmidt to reactivate the implementation of the EMF at this time. The broad view among European banking circles and others is that President Ronald Reagan has less than 50 days to crush the Volcker policies of the Federal Reserve System, before a probable chain-reaction economic collapse which would make Mr. Reagan rather less popular than the unhappy President Herbert Hoover under comparable circumstances earlier. "Fifty days" may be a generous estimate. Although it is necessary to crush the insolence of Volcker's Federal Reserve in this matter, simply booting Mr. Volcker into overdue retirement from public life will not solve the many other grave problems to be overcome. If there is still a bit of sanity in high places, the time for implementing the EMF is already overdue.

Noninflationary credit

The reasons for continued toleration of the Volcker measures are essentially the same reasons the fellow

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drowned trying to walk across the thin ice of a pond. Since most persons—especially professed economists and bankers—lack competent understanding of economics, they simply fail to realize how dangerous the effects of Volckerism are. The propaganda generally tolerated by the credulous is the argument that once tight-credit action has bankrupted a certain number of superfluous "sunset industries," inflationary pressures will be lessened, and then interest rates can be brought down.

The heart of the prevailing ignorance within such locations as much of the Reagan administration is a refusal to comprehend the implications of the distinction between "productive" and "nonproductive" spending and investment. In brief, investment in capital-intensive forms of goods-producing industry and agriculture increases the productivity of labor, and therefore cheapens the average cost of production of goods for the national economy as a whole.

The benefits of increased investment of that sort are manifold. Not only do the new investments increase the productivity of those employed. Each person shifted from unemployment rolls or nonproductive labor-intensive services or redundant administrative employment into goods production lowers the waste factor of "overhead expenses" for the national economy as a whole. Each average goods-producing farmer and industrial operative now has fewer nonproductive overhead-linked people to carry on his or her back. In other words, the national gross profit of goods production is increased by advanced technology investments, while shifts from unemployment and nonproductive employment categories reduces the per capita overhead expenses to be charged (through taxes or otherwise) against the per capital gross profit cf goods production.

In order to keep that process of improvement moving, we must increase the ratio of engineers developing improved capital equipment. To keep those engineers moving ahead, we must also expand the rate at which fundamental scientific advances are being made per capita.

The person who comprehends that understands the first principles of basic economics. The person who begins what he or she calls "economics," or "economic policy-making" from any other starting point is totally incompetent, a helpless bungler.

Once that is understood, the basic principles of monetary processes are also easily understood.

There never was a truly "invisible hand"; there was only the very visible hand you failed to watch closely enough at the time your pocket was picked. All the chatter about "invisible hands" is exposed as the cult doctrine of the ignorant and superstitious, once the basic principles of monetary processes are identified. Those simple principles are the key to the practical conception of the European Monetary Fund.

The shifts of investment from productive to nonproductive categories of employment and exchanges, or vice versa, are determined by the way combined savings and new credit are caused to prefer to flow in one direction or the other. If after-tax earnings on nonproductive investments are significantly higher than on productive investments, we have as a result the inflationary spiral of economic decay to which the United States has been subjected over most of the postwar period, especially since Prof. Milton Friedman rode President Richard Nixon's back into the White House in January 1969. If credit is made cheaply available for technologically progressive agricultural and industrial goods production, and tax rates on productive investments are much lower than on nonproductive, inflation will stop, and can be reversed.

Nothing else works. Everything else is the superstitious hocus pocus of a bungling would-be magician.

Therefore, there are two main weapons governments must use to stop both inflation and depression threats today. First, cut out all favored tax treatment for nonproductive categories of income and investment, while increasing substantially tax incentives for technologically progressive investment in science and productive employment in goods-producing agriculture and industry. Second, create a relative shortage of relatively high-priced credit for nonproductive investments, while creating a relative abundance of low-priced credit for technologically progressive investment in goods-producing agriculture and industry.

If we tolerate any different approach, then those who tolerate Volcker et al. morally deserve the misery their folly has brought upon themselves.

Therefore, a new, gold reserve-based credit-issuing institution, bypassing the funny-money institutions such as the Federal Reserve (domestically), or the International Monetary Fund or "offshore" unregulated banks (internationally), is the only alternative to a general economic collapse of incalculable depth and duration. Anyone who opposes the implementation of the European Monetary System is, in effect, an ignorant fool or a willful advocate of economic suicide for the United States (among other nations).

*The author's 1980 publications dealing with these subjects include: *Basic Economics for Conservative Democrats*, *Will the Soviets Rule During the 1980s?*, Campaign White Paper #4, "How to End Inflation and Unemployment"; Democratic Party Policy Review Paper: "Why Western Europe Broke Out From Under Control of the U.S. Government's Directives"; 1980 Draft Democratic Platform, "The Next 50-Year Economic Boom"; and Mr. LaRouche's three latest major contributions, *An Open Dialogue with Leonid Brezhnev; Why Credit Can Be Greatly Expanded Without Adding to Inflation*; and *A 'Gaullist' Solution for Italy's Monetary Crisis.*