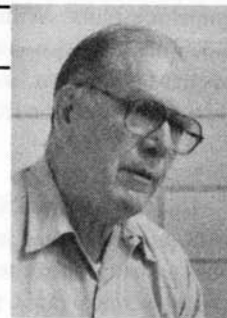

Interview: Lyndon H. LaRouche, Jr.



'Clinton will fail unless he takes on the Federal Reserve'

The following comments by the former presidential candidate on William Clinton's Feb. 16 State of the Union address, are taken from his weekly radio interview on Feb. 18. Mel Klenetsky conducted the interview. Radio stations can receive: "EIR Talks with Lyndon LaRouche" by satellite. The interviews are broadcast from 7-8 p.m. Eastern Time, Saturdays on: Galaxy 2, 74 Degrees W; Transponder 3 74.9 MHz NB, SCPC; 3:1 Companding Flat; or Satcom C-1 137 Degrees W; Trans 2 7.5 MHz; Wideband Video Subcarrier.

EIR: Mr. LaRouche, we have just heard from Bill Clinton in his State of the Union message. He talks about \$500 billion in new taxes and spending cuts. He is talking about reducing the debt, he is talking about investment.

Does this program do the job?

LaRouche: No. There are features of it which are possibly workable, or even represent emotions moving in the right direction; but the program overall is guaranteed to be a flop in its present form.

EIR: Why so?

LaRouche: Well, as I have said before: First of all, there is a misdiagnosis of the problem by the Clinton administration.

Clinton's speech was in some parts artfully done, admitting that both parties have been responsible for the mess and that this goes way back. But the fact of the matter is, that all the key issues are the ones he didn't address.

We are in, actually, a worldwide depression, in which the United States is collapsing a bit faster than Japan or western continental Europe, and has been collapsing for a longer period of time because of policies we adopted during the middle 1960s—that is, policy axioms, policy assumptions: the rock-drug counterculture, the New Age, which, together with the anti-technology, anti-scientific bias which is reflected, of course, today in our school systems. So we no longer have an orientation toward growth real growth; growth in productivity has always depended and will always depend upon a relatively massive concentration on investment in scientific and technological progress.

Secondly, as part of that, changes in educational policy, away from a traditional, pro-scientific educational policy into a social-engineering-of-the-student's-mind policy, has given

us a labor force which today is no longer capable of the kind of productivity which is implied in a recovery program, without very special measures and a change in philosophical orientation.

And the mechanism of the debt growth and the growth in the fiscal crisis, is a combination of deregulation, free market policies so-called, but especially the role of the Federal Reserve System under this arrangement. *As long as they do not touch the Federal Reserve System and its problems, there is no possibility—no matter how stringent or austere the measures—of dealing with the growth of the total national debt, or the growth of the fiscal bite of the debt into the operating budgets.*

To make it clear: Let us assume that President Clinton is going to carry out the program of Ross Perot. Ross Perot would assuredly be *as big a failure* on this count as Clinton. Obviously, we would expect that if Bush had been elected, he would have done pretty much the same. So any of the three leading candidates, which the voters voted for, would have done as badly as Clinton is doing right now. The thinking of any of them would have assured us a catastrophe.

EIR: Does the debt stand in opposition to any kind of a real investment policy?

LaRouche: Absolutely.

The basic problem here, in terms of the debt and in terms of debt service, is that you have got to stop buying high-priced debt, which means no more 7½-8%, 30-year bonds, for example. That is the crux of the matter there.

And you have to increase the tax revenue base without raising the tax rates generally. There are cases where tax rates could be raised without a counterproductive effect, and perhaps should be raised. But in general, the tax rates *should not be raised.*

The way to solve the problem is to increase the tax revenue base of households and business income; if we do not expand that income, there is no possibility of a rational solution to this problem.

To do that, you have to create credit. The question is, where are you going to create the credit, and how much? You have to create about \$1 trillion a year of new credit—somewhere between \$600 billion and \$1 trillion a year minimum—to get the economy moving, to get to a breakeven

point, where the problems of the economy are met, and the problems of balancing the budget are met. If you do not do that, you are not going to solve the problem.

If you are going to do that through the Fed mechanism, you are going to blow the system out—at least under present arrangements. Because the Fed creates money out of thin air, not out of taxes, not out of deposits, but out of thin air, at about 3%. Then the federal government borrows that money, at about 4½-7½% now.

At present, the banks are going *heavily* into government bonds, because their own situation is so desperate. In other words, the federal government is bailing out the commercial banks and other institutions, by offering this growth in debt through the federal bond route, through the Federal Reserve mechanism. If you do not change that and go back to direct creation of currency by the Treasury, under bills authorized by the Congress, and do not deposit that money, say, at 2% on 10 years, 2% on 20 years, somewhere in there, to selected categories of investment . . . unless you dump the Federal Reserve mechanism of monetary generation, and take those powers away from the Fed, and go back to the Constitution (of which the Fed is actually in violation, so that is not a big innovation), you cannot get this economy out of a depression.

The issue here is that there are commercial and financial interests, such as the commercial banks, which are presently being subsidized by the federal debt. That is, the banks which are out of position under the new rules, or were close to it, went to the Fed, borrowed money on the discount mechanism, money which the Fed created out of thin air and loaned at about 3%. The banks turned around and made a secure investment in U.S. government bonds at between 4½ to, say, 7½%, depending upon the length of maturity.

Those bond purchases were then used to bail out the banks' position, and the banks themselves. So what has happened is—which is what neither Perot nor Clinton nor Bush mentioned in the campaign, nor Clinton today—a swindle by these financial interests of the United States taxpayer through the Fed, which is the principal mechanism causing the difficulty we have, in trying to get the economy moving.

These interests, which have pressured Clinton into making a very modest recovery program (actually much less than \$30 billion in total investment), are the same interests which are looting off the federal government, the federal taxpayer. Unless we go to the other mechanism, that is, of creating money at the Treasury, not the Fed, and of loaning it at 2% on 10 years to selected categories of borrowers, then what would happen if you tried to cram a monetary aggregate buildup through the Fed for a recovery, is that these financial swindlers—I think they are fairly called swindlers—would simply take most of that money, and plug it in to their speculative financial bubble to try to prop it up. That would blow out the U.S. economy in a hyperinflationary explosion if that were attempted.

No President, no Congress, can get a recovery out of this

spiralling downward depression we are still in, unless they take on the Fed. We must remember, also, that we are not even looking at, directly, in any of these discussions, the major mechanism of the financial bubble which has threatened to blow out the whole world financial system, and that is called derivatives. That is a whole other subject in itself.

We have *trillions of dollars* of unaccounted paper as obligations floating around the system internationally; and when that blows out, the whole financial system will blow out. Any more of that kind of speculation which is now ongoing, and we have reached the point where that becomes uncontrollable.

So that is why, perhaps for all the good motivation or whatever that Mr. Clinton has, what he proposed yesterday, just cannot work.

EIR: So far, it seems, in terms of spending cuts on the federal budget, one thing which has remained sacrosanct, untouchable, is the federal debt. You have mentioned this derivative market, the trillions of dollars in terms of debt. Is there any way of getting a stimulus investment program with this kind of debt? And if we have to restructure the debt, then what is the nature of the stimulus program that you recommend?

LaRouche: I have already recommended it. I had a 10-point program which I announced in the *Washington Times* and various other media during January and so forth of last year. This program had a significant impact on the Democratic Party and others. We hear echoes of this word “infrastructure” all over the place, a term which essentially I introduced in this form. Clinton had adopted a small, pale shadow of that.

That is what has to be done.

To do that, you have to do as I say. You have to generate your credit the constitutional way, and create what used to be called debt-free money. The federal government no longer goes into debt to create its own currency, which is what the problem is here.

It is not a question of how to pay or restructure the debt. The essential thing is that *you have to take the nation off the Fed monetary mechanism and go back to constitutional mechanisms*. If you do not do that, nothing will work. If you do it my way, which is the constitutional way, it *can* work. It is going to take a lot of hardship to get it going because we do not have a labor force which has the education and skills—especially college graduates are not too good for real work these days.

But if you do not do it that way, it is not going to work. And that is the problem. It is not a matter of restructuring the debt—forget restructuring the debt, that is not going to work, *unless* you go to this other mechanism.

So the restructuring of the debt is not the problem. It's a problem; but it's not *the* problem. *The* problem is to get off the Federal Reserve tit.



Former presidential candidate H. Ross Perot, whose program has been adopted by Clinton. Perot, says LaRouche, "would assuredly be as big a failure on this count as Clinton," because neither Perot, nor Clinton, nor Bush recognized the swindle of the U.S. taxpayer by the private commercial and finance interests that run the Federal Reserve.

EIR: Some people recommend that the Federal Reserve should be shut down. Is that your recommendation?

LaRouche: No.

I would take the thing over, make it constitutional, and make it a National Bank of deposit. I would peel off certain aspects of it to go away from the Federal Reserve district operation to a constitutional approach, which is to make the principle that of state banking systems, a corresponding bank within states for a National Bank, rather than having the Federal Reserve regions which, in my view, are on principle unconstitutional.

EIR: Some of the cutback programs: Mr. Clinton has put out polls. ABC, CBS, all of the news, have had polls saying that the American population is willing to accept this sacrifice in such areas as health care, in social security. What will this do in terms of the actual living standards of the population?

LaRouche: We are going down. This is going to be "share the poverty," to a certain degree—not much sharing, but a lot of poverty. This is not going to work. There is no way.

But the public is *desperate* now. The public themselves are not willing yet to look at what they consider the really radical solutions; and until the public is willing to look at radical solutions—which means saying that deregulation was insane, free trade is insane, and things like that—unless they are willing to start talking about that and the Fed, then the public is going to, out of pure desperation, listen to any con man who comes along offering a supposed solution with a good pitch, with good motivational language.

Anything which does not attack free trade or the Federal Reserve, or deregulation, they are going to tend to accept, because they do not want to attack free trade, the Federal Reserve, or deregulation. Therefore, I am afraid that most of the American public is still a bunch of suckers who are going

to fall, in large part at least, for any hokum that comes out from the best con man in sight. And that is the situation that we are in, unfortunately.

EIR: You talk about radical solutions. Are there any historical precedents for what you are proposing, in the 20th century?

LaRouche: In the 20th century, there are lots of them.

There was one attempted in Germany, and the Anglo-American powers couped the von Schleicher government in Germany, and put Hitler into power to prevent it from being implemented.

Then they let a certain form of that solution, which was being implemented under Dräger. They allowed that to continue under Hitler, which was the real cause for the so-called recovery under Hitler. But Hitler had been opposed to that program, totally; but the foreign bankers said, "Well you can do it, because we will shut it off whenever it goes too far."

But there have been frequent moves in that direction. Elements of our own recovery programs at various times during this century, were reversions to it. Take wartime financing, for example: World War I, World War II, the mechanisms for financing were imitations of our original constitutional system—parodies of it at least—of the so-called Hamiltonian or the Monroe or John Quincy Adams or Lincoln sort of mobilization.

EIR: What is the size and dimension of your job-creation program compared to what Clinton is talking about? He is talking about 200,000 jobs.

LaRouche: You have to have about 6 million jobs—remember, you have about 17.3% of our total labor force which is actually unemployed. That is full-time equivalent unemployment. They are listing about 7.1% unemployment, so the difference is, about 10% of the labor force is somehow lost

even in the accounted figures of the Labor Department. And there is actually a larger unemployment factor than even the official figures of 7.3%. So we have plenty of people who are unemployed.

To get enough tax revenue base increase from households and business to balance the budget without raising tax rates on businesses and middle- to lower-income households, you have to have about 6 million more people employed. That is going to mean that you have to stick in a stimulant in the form of credit, of somewhere between \$600 billion and about \$1 trillion minimum to get the wheels turning to get that kind of employment.

EIR: Some people say this will be inflationary. Is it inflationary?

LaRouche: Not if you do it properly, if you invest in basic economic infrastructure, the right stuff. If you concentrate on using sectors which are collapsing now, say, auto and aerospace, and find out the other products that they can create right away, because of their technological capabilities, to supply or help supply some of these infrastructure projects such as rail systems with equipment, then you are going to end up with the right result.

Of course, if you throw it around on make-work projects and so forth—which are not economical—then you could have an inflationary result, not because of the mechanism you are using, but because you are applying it to things which are not the most productive.

EIR: There is a resolution being introduced into the North Dakota state legislature which calls for a moratorium on farm foreclosures in the farm sector. Is that the kind of direction that you would recommend?

LaRouche: I would include that. Absolutely. Although most people do not realize it, we are net importers of food from foreign countries. If we are going to try to even balance our national balance-of-payments situation, we are going to have to cut out our dependency on imports, by providing protection of various kinds for domestic producers who are either of competitive or potentially competitive quality.

For example, that is why I would support a piece of legislation which has come out of committee from [Senators] Bennett Johnston [D-La.] and [Bob] Krueger [D-Tex.], which would establish a trigger price tariff on petroleum, setting a price on petroleum, and if petroleum is priced to come in the country at a lower price, we will just put a tax on it to make up the difference, to protect the U.S. native producers.

Those kinds of protective measures, which are not unfriendly and not really trade war against anybody—that has to be done, and stopping farm foreclosures in order to save the irreparable damage of losing this capacity, is one of the measures that has to be taken, not only for the farmer, but for the eater, for the consumer.

Will Clinton end DOJ police-state abuses?

by Edward Spannaus

No section of the U.S. government is more desperately in need of reform than the Department of Justice (DOJ). Over the 12 years of the Reagan-Bush administration, it grew into a gigantic police-state gestapo posing a threat to the civil rights and liberties of all citizens. Its abuses have been recently chronicled in *Time* magazine and in a six-part *Washington Post* series.

There are tentative signs that the new administration intends to reverse, or at least curb, some of the worst abuses of the Reagan-Bush years. These have appeared in connection with the trouble-plagued nomination process for a new attorney general, and in some recent actions of the temporary regime in the department itself, particularly around the case of Rep. Harold Ford (D-Tenn.).

Prosecutorial abuses

While the pattern of abuse and prosecutorial misconduct didn't begin with the Reagan-Bush administrations (remember Abscam and Brilab from the Carter years), the past 12 years have seen an unprecedented consolidation of unbridled police-state powers in the DOJ. Its budget quadrupled, from \$2.3 billion in 1981 to \$9.3 billion today—this from the people who promised to “get government off our backs”! It now has over 90,000 employees.

The *Washington Post* series highlighted the “vastly expanded” powers which federal prosecutors have assumed over the past decade. DOJ policies and U.S. Supreme Court rulings have given federal prosecutors “more flexibility than ever before in pursuing convictions,” and have made it almost impossible to “hold federal prosecutors accountable for tactics that once were considered grounds for case dismissal or disciplinary action.”

The type of disreputable tactics cited by the *Washington Post* were: manipulation of grand juries; failure to disclose evidence favorable to a suspect or a defendant; government intrusion into the relationship between defense attorneys and clients; intimidation of witnesses; and blitzkrieg indictments or threats of indictment designed to force capitulation without the need for trial. The series described numerous examples of such tactics, including entrapment situations where prosecutors induce a target to commit a crime, or set up a defendant to hire an attorney who is actually a government informant, or multiple, simultaneous indict-