
LaRouche in Rome

How to reorganize the banking system

The following are excerpts from a dialogue between Lyndon LaRouche and participants at a seminar on the New Bretton Woods system, on April 2, in Rome. The briefing was attended by Members of Parliament, economists, journalists, and diplomats. (See EIR, April 17, pp. 44-48 for LaRouche's presentation.) Many of the questions were translated from Italian, and are summarized here.

Q: Concerning the crisis which you are forecasting: Where is it going to hit? And second, why are you so against the Maastricht Treaty? Isn't this an attempt to create a stronger Europe, which could balance the power of the United States and of Asia, and of other continents?

LaRouche: Well, that's what the British commentary is, on the second point: that it will make Europe stronger. In point of fact, the immediate effect—once the European nations were to agree on the future peg of the currencies to the future euro, there would be a collapse of the value of the European currencies, reflected by a sudden outrush of capital, financial capital, from Europe in general, from the so-called Maastricht countries, the euro countries, into Swiss banks, which are nearby, and into the United States dollar. The result of the euro's adoption would become not a harder euro, but a softer euro.

Now, this would be coupled by the fact that, first of all, the purpose of Maastricht was to destroy Germany. The purpose of Maastricht was *never* to make a strong Europe. That's pure propaganda! The designer never intended that. Kohl was forced, at the point of a gun, with support of Bush—Bush supported Kohl in the unification of Germany, on condition that Kohl accept this proposal by Mitterrand, to destroy Germany.

So that Kohl made a "debt of honor," as he puts it, to submit to the French. And at present, even though in Italy, or, to a large degree, even in France and in Germany, there's tremendous opposition to the euro, but at the top, there's official support. It's like people who have signed on to a suicide pact, and they're going to kill themselves simply for purposes of "honor," because they've committed themselves.

The secret of the thing is that if you destroy Germany, you destroy Europe, because the German economy is the *center* of the European economy.

Now, you look at the impact of the so-called Asian crisis

on Europe. Look at the percentile of the productive investments by Europe, in terms of trade agreements and so forth, in East and Southeast Asia. Look at the related issue of investments and trade agreements with Iran and Middle East countries generally. Look at the effect of the new Balkan war which Milosevic, a British agent, is trying to stir up around the issue of Kosova and Macedonia.

Remember, the Balkan war was started by the British and French, to contain Germany. The United States signed a rotten agreement at Dayton, because the Europeans wouldn't give the United States enough support against Britain on these agreements.

You take the losses which will be incurred by companies in Italy, Germany, and France, by the collapse of Southeast Asia investments and trade agreements. This time, the impact will be much greater, and not only because the impact of this crisis now erupting will be greater than that at the beginning of the year, but because it becomes obvious that these solutions, so-called, that were made in December and January of this year, these so-called solutions are blowing apart.

It is obvious the IMF conditionalities are not workable. They intrinsically can not work. And therefore, the effect on Europe this time, as a second blow, will smash what remains of European stability. You will have a spiral of collapse in Germany, Italy, and elsewhere, as a result of trying to absorb the losses which will radiate and impact Europe most strongly, a result of the Southeast Asia/Asia crises.

This is a global systemic crisis, it is not an Asia crisis. You see the media talking about the "Asia crisis." It's *not* an Asia crisis. It's a global crisis.

This will have as much impact on Europe as the August 1971 crisis had, and more than the 1975-76 crisis. The oil price crisis was minor compared to this. It's bad.

Q: How can we remedy this now, without a devastating crisis? Do we have time enough to absorb this mass of paper which has been created?

In the '70s, I was in a taxi with Paul Volcker, and I asked him, "What do you think about the European currency?" And he said, "We already have enough confusion with the dollar itself. We don't need another one." And now, Volcker is one of the few supporters of the euro in America. So, either Volcker changed his mind completely, or the discussion in the 1970s of the European currency was completely different, and the euro today is not the idea of de Gaulle.

LaRouche: No, of course not. The first thing is, remember the way you organize a system, is you set up rules under which national governments can act. That is, you get a group of nations, sovereign nations, not a Maastricht minestrone, but a group of sovereign nations. And they agree to set up a group of rules, which are designed to have a certain purpose, which means that their governments agree to address certain problems by certain methods, sovereign methods.

The first thing that would happen is, in my view, if I were

President of the United States, is that no person would be authorized to make any payment on account of obligations incurred by derivatives, which means that you would nullify, effectively nullify claims against banks and others, based on derivatives. You would nullify all obligations based on derivatives.

That would immediately eliminate \$130 trillion.

Q: This is the moratorium that we already spoke about.

LaRouche: Yes, right. A real moratorium. This is one with a certain dramatic impact. This is known as the entry into Paradise: a little fire, naturally, as is explained by Dante, but—

So that otherwise, you do the same thing, using the sovereign power of sovereign nation-states. You go into a bankrupt bank, a bankrupt financial institution, and you *freeze* everything. Now, you set up rules for releasing funds, that is, to allow people access to their savings, payment of pensions.

Other things, you play around with. You take some debt and you say, “This is short term; we automatically decide this is long-term, and it’s 1%. It can not be liquidated, but it can be used as a credit asset.” Because, in many cases, we will wish to keep the banks, even though they’re hopelessly bankrupt, in operation.

Banks have two functions in society, apart from bad ones. One is they are a form of investment; private banks are a form of investment. They also are sometimes private investments, in the sense of being syndicates, as in the old German system of a group of industrial enterprises. It’s a way of syndicating power to be able to conduct international trade and long-term investments.

They also are an essential instrument of relations between the state and the average citizen, including the business community.

Now, the good banker, as opposed to the young idiot, knows his community, knows the people in the community. Therefore, he plays a very important social role in assisting and coordinating the distribution of credit in society, in ways that are needed by the society as a whole. What, essentially, we would do, is take all these bankers who are considered essential, socially essential for society, and say, “That bank will stay in business. It may be bankrupt, but we’ll keep it in business, under special bankruptcy rules.”

In other words, certain financial institutions, we will say, are socially useless. They’re bankrupt, they’re hopeless, we shut them down. We liquidate them under bankruptcy rules. A second group of banks and financial institutions, we say, these are socially essential. So, therefore, these institutions we do not close down; we reorganize, we put them in reorganization. So, we use them as instruments to get national credit out to where national policy wants to have it delivered. We’ve done this before. We did it in the United States, for example, during World War II.

For example, the government authorizes a major infrastructure program. Let’s take the case of Italy, water systems: Do you have any rotten water systems in Italy that need repair? Or we say, for example, the Messina Bridge must be constructed now. Or other projects. Or improvement in rail systems, water systems, power, more power stations.

So, the state then makes—the Executive branch, with the consent of Parliament—makes an indicative planning program for distribution of state-mobilized credit. And, under this kind of indicative planning, which is what de Gaulle tried to do, which was also done with Enrico Mattei, in Italy. So, the state gives an indicative plan, saying, “These are the priorities, national priorities. And these are the general proportional importances of these various things.”

So, what we do, is, the state then initiates a contract to create an agency to do each of these projects. This agency is like the master contractor, which is run by responsables, but also by technicians, engineers, and scientists. They are instructed to go to the best resources, but with emphasis on local resources, to find private contractors to assist them in implementing the project. So, they approve a sub-contract to these people.

Now, the credit is not given in cash payment. The credit is given in progress payments. In other words, when the contractor agrees with the master contractor to sub-contract, they are paid their payroll, certain materials costs, and so forth, on a schedule of performance. In other words, they don’t actually touch the money, but, however they submit their payroll, the payroll is paid; they submit the materials costs, that’s paid, and so forth, as in a normal construction contract.

So, what you need, then, is that the local banker becomes the medium through which the sub-contracts are approved for payment, through the banking facility. And they also relate to the auditors who audit these accounts, to make sure that the things are being done that are supposed to be done. Inspectors.

Now, under that system, with a very small amount of actual money, and a great deal of credit organized by the government, you can revive an economy. That’s how it’s been done many times. And the object is to make these banks, who know whom to call, who know who was successful in the past, who could do the job. Because the intangible personal relationship between people in the community, is essential to make something work. The bank is also a mechanism of social help, because the bank can indicate, most quickly, on the basis of people coming to the bank about their money, for loans and so forth, what the needs are of the population.

So, any bank that performs that essential social function, you keep alive in reorganization, under government protection. The object was, as in postwar reconstruction, these banks that succeed in doing what they’re supposed to do, we would hope become free of reorganization, and then come out as independent institutions again. . . .