

'Only the Reagan administration can stop World War III'

by Lyndon H. LaRouche, Jr.

Following are excerpts from the address by Lyndon H. LaRouche, Jr. before more than 120 U.S. businessmen, government officials and 20 embassies at a June 10 Washington seminar sponsored by EIR.

It is the increasing perception of forces on both sides of the East-West divide that Mitterrand's election in France has set into motion forces which might lead to World War III sometime in the course of the 1980s.

I will emphasize that while there are specific features of the Mitterrand victory which do in fact threaten to destabilize the world's affairs to the point that an otherwise unthinkable thermonuclear war might occur, the reason this is possible is the fact that the measures of Mr. Paul Volcker at the Federal Reserve, and his accomplices at that generous institution in Switzerland called the Bank for International Settlements, are so destabilizing the political as well as the economic structure of nations that the world has entered an area of potentially incalculable instability.

We face a potential world depression far worse than that which beset us in the 1930s—that beset us between the two preceding world wars of this century.

For example, in the United States we have about \$3.5 trillion invested in real estate. This is to be compared with approximately \$700 billion invested in goods-producing capacities.

The effects of the Volcker measures since October 1979 have been to slash the goods-producing sector's utilization of capacities by about 20 percent in 1980. At the current rate, assuming no crisis-point of inflection, the goods-producing capacities of the United States are scheduled for a further 25 percent collapse during the course of 1981—a process which began to take off at the onset of the second quarter. . . .

This situation in the United States—with diminishing goods-producing capacities and over \$1 trillion in speculative real estate values in New York City alone—is only an extreme case of the problem which pervades economies throughout most of the world, especially the OECD countries. Except for Japan, all of the OECD countries are in states of monetary disaster, such that if the United States were to collapse in October or Decem-

ber of this year—it's quite possible unless the Volcker measures are reversed—it would trigger a chain-reaction which the other OECD nations could not resist.

When you look at the situation in developing nations, even those that are relatively strong, it is clear that they too could not withstand a chain-reaction of that type. . . .

This intersection of factors—the potential explosion of the U.S. economy, the potential explosion of the monetary structure of the Third World—means a general monetary collapse which could lead to conditions which are unprecedented in European history since the middle of the 14th century. It would represent a general collapse not only of the monetary economy, but a collapse of the output ratios of the world's population so far below the required level of production that would maintain the existing population, that a chain-reaction of genocide would erupt and spread even into the industrialized nations—as a result of the collapse of goods-production, food and other goods, below the level required even to maintain existing population.

We are on the verge of the worst holocaust in modern European history, something far worse than we have seen in this century to date.

But for precisely that reason, many people just don't believe it. They cannot take it seriously, because it is unprecedented. Ah, but sometimes the unprecedented does become reality.

How could this depression become reality? Inside the industrialized economies, we have two categories of payments. One category is the circulation of money through the production and circulation of newly produced goods, and the payment for administration and services adjunct to that production and circulation of produced goods. We have a second category of payments which may or may not be related in some sense; these are payments which have to be met out of the proceeds of goods production: fixed obligations of debt-service and rent.

Consider this in light of what I said at the outset. If the magnitude of debt-equity and debt-income obligations is what it is, and if the ground-rent capitalization in the U.S. economy alone—\$1 trillion in New York City—is what it is, if you contract the goods-production capacity of the United States by 20 percent in 1980, and you

are on the road to contracting it by 25 percent more in 1981, then who is going to pay the rent? Who is going to pay the debt-service?

Are we producing the wealth in terms of present denomination of values of goods that will permit these obligations to be paid without forcing people into genocide? No, it can't be done!

At the present rate, it would be reasonable to say, not that the depression will break out worldwide in August or September of this year, but that we are totally fools unless we take measures to prevent that *now*. We must have those measures in place before August and September, or we may find ourselves in an irreversible situation.

It is that problem—and the instability of institutions under these conditions—which is leading us toward World War III.

The role of institutions

It is a delusion to imagine that general thermonuclear war could not happen—"because people are too rational, and at the last minute they'd stop it." I'm sorry. That's bunk. That is not the way history works.

The human race does not behave rationally. Rationality affects the way the human race behaves, but it has not to date behaved rationally. Governments have not behaved rationally in the history of humanity to date, even though rationality has affected them. Governments behave on the basis of the impetus built into existing institutions. When those institutions are impelled to act on the basis of narrow institutional interests, they carry people along with them.

For example, the Reagan administration knows that Paul Volcker has to go. Why does not President Reagan call up the relevant people in the Congress and dump Mr. Volcker immediately? Ah . . . there are institutional implications! There are problems within the Republican Party as well as the Democratic Party, people who oppose dumping Volcker. The President cannot be sure that were he to make that decision, even the majority of his own party would support him. And the President is assured that perhaps a majority of the Democrats led by Tip O'Neill would oppose him.

That's how it happens. Institutions find themselves caught up in a step-by-step process. "We'll just make this concession. We have to be practical. We have to go along with this," etc.

Let me give another example. The truth is known about who's running that little destabilization in Central America, which I hope that López Portillo and President Reagan will help to clean up. That bloodbath in Central America is being run by the Socialist International. Now if you don't like it, and think the destabilization of Central America is a strategic threat to the United States, and you think that Castro's involvement in it is a strategic threat to the United States, then

remember who brought Castro into Central America! It was Willy Brandt! Who funded the operation into which Castro was brought? Two billion deutschemarks paid for by the German churches, together with the Socialist International, the Friedrich Ebert Stiftung which is all over Latin America.

The United States government knows that. Giscard's government knew that and told us about it. I am sure that Helmut Schmidt knows it. But Schmidt has a problem. Half the nuts who are behind this thing are members of his own party, like Willy Brandt. . . .

Therefore, in real politics, even though we start from reason in making policies, and we have determined objectively what we have to do, before we start to do it we have to look at institutions. . . .

Institutions are important, but they do not determine the course of history. What determines the course of history is the thing that moves institutions or determines the conditions under which they respond. You might say that these forces are the "transfinite." And just to the extent that a policy—for example the policy outlined by the New York Council on Foreign Relations a few years ago, "controlled disintegration of the world economy"—promotes chaos, then to that extent, it does not work the way those who promulgated these policies intended. If you change institutions then you change the geometry for institutional behavior. You find you've done something and you've gotten by with it, you made the decisions, and then turn around and find out that you are now on an unstoppable course toward something that you would never willingly have happen, but you can't stop it, because you can't stop the institutions involved.

We have to take the shaping of the situation facing the world's institutions out of the hands of the people who are now directing this policy, out of the hands of the people who are behind the statements of Fritz Leutwiler and the Swiss Central Bank, out of the hands of the people who are running Paul Volcker.

There is only one institution in the U.S., and in the world, that can save civilization from world war right now: the Reagan administration. Nothing but the Reagan administration can stop World War III! If you destabilize the Reagan administration, you remove the last possible option to preventing World War III. . . .

Credit, banking, and taxation

What we have to do in the United States and in other countries is to institute a fundamental change in credit, banking, and taxation policies.

We have to make investment in high-technology agriculture, high-technology industrial investments, manufacturing, construction, so forth, the most profitable after-tax investments, not only from the standpoint of the individual farmer and firm, but from the stand-

point of the saver who buys equities or whose savings become loans. We have to increase the tax-rate, in terms of eliminating tax exemptions, on things which aren't productive. Very simple thing to do. I can think of no policy that would bring greater support from the greatest number of constituencies in the United States than to say that the only tax reduction we're going to make, except for direct jobs-producing productive investment, is an increase in the per capita household income tax exemption. And it also happens to be very sound economics.

Banking? We've too much credit extended for non-productive things. We have to reverse that, and ensure that when we increase credit, that we do not increase the circulation of credit outside of the production and circulation of newly produced wealth. The banking system has been dirigist in favor of moving away from industrial society. We're going to reverse this.

We have to regulate the banking system, which means we have to regulate Paul Volcker out of a job.

Congress can reaffirm that the President has the power to replace any member of the Federal Reserve who was appointed by a President of the United States, the same as any other government appointee.

How are we going to create credit? At present, we are importing funny money. We have granted to private offshore foreign banks a power to print dollar credit which we do not allow to our own banking system or our own government. Therefore, the Federal Reserve System and the United States government must enforce the principle of regulation of banking. We must demand transparency of any bank that wants to do business in the United States. And we have to go back to the gold reserve system—\$500 per ounce or higher.

That simple action would permit us to wipe out immediately the main cause of international inflation. Except on a gold reserve basis, none of that funny money would be recognized.

How do we create credit? We issue gold reserve-backed U.S. currency notes, not for circulation, but to be issued as participation credits for production-related loans in agriculture and industry. Essentially, what this means is that the Federal Reserve is turned into a national banking institution.

This is what we did essentially in the Reconstruction Finance Corporation operation of the last war. It works. The United States can issue credit at 2-4 percent on the basis of currency notes which are fully secured by the value of the assets against which they are loaned to the private bankers. On this basis, we could crank into the U.S. economy as much credit as we need on a selective noninflationary basis. We could probably increase the output of the real goods-producing economy by 20-25 percent within a year. Every dollar that went into circulation by that method would be gold-secured dol-

lars—and we have the gold to do it—for purchase of capital equipment, purchase of construction, purchase of improvements in agriculture, and purchase of goods for productively employed people. Thus, we increase production and employment. Don't worry about stopping inflation. This would stop it cold.

Apart from our domestic crisis, there is the Third World debt problem. The Third World cannot pay its debt. The banker says, I have this debt, this country over here owes it to me. He can't pay, so I'm going to refinance it. But—that debtor is unable to pay! That debtor is bankrupt!

What do you do about this worthless paper? Forget it! If nations agree, we can issue certificates, gold denominated, from banking institutions in those countries, which don't come due for a long time.

Now David Rockefeller can get lendable funds for Chase Manhattan on the basis of the discount of these certificates. The only catch is that they would have to be loans related somehow to the improvement of the real, hard-commodity side of the economies to which the loans are made.

If we do this, we have created the greatest opportunity for economic expansion the world has ever known. We could probably expand world trade between \$200-\$300 billion per year. Why? Because the developing countries become a good investment. As a whole they are a 15-25 year investment; in others, it will have to be a 50-year investment. What makes them good investments? They have people! People can be educated. An educated person who has the technology can produce a great amount of wealth! Provided we limit our lending to those purposes that increase the productive power and output of these developing nations, we have created the greatest investment boom in history.

The United States government under President Reagan is the only possible instrument in sight which can save the world from disaster. We have to get rid of the nonsense that is coming out of the *Washington Post* and the *Wall Street Journal* and produce a community of agreement on what works in shaping government policies to replace the so-called authorities that are actually incompetent in existing institutions.

That is the thing I intend to do. Produce new thinking institutions. And I hope that some of you will join me in that. We must do some of the same things that the friends of Leibniz and others did. I have tried to contribute to that with the work on the LaRouche-Riemann model, and in other ways. To build a new school of management and government policy preferably here in Washington, in which not only U.S. nationals but people of other nations can participate in. A new think tank to replace the Brookings Institution, in which we can formulate and disseminate the ideas that can shape the policies we need.