

# Measures to be taken under conditions of collapse of the financial system

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Although I had no formal position in the government of the United States at that time, I was at the center of a raging factional struggle, concerning economic policy, inside the Reagan administration, during approximately a twelve-month period overlapping 1982-83.

During this period, I was occupied in creating the design for the U.S. SDI policy announced by the President on March 23, 1983. As part of this, I was also designing the economic program for developing and deploying an initial phase of SDI over a five-year period. We originally planned to start with \$7 billion the first year, and go quickly to a level of \$35 billion. It was in this connection that I warned the relevant channels of the Reagan administration of a 1982 blowout of Latin American and other debt, building up inside the international financial system. Some of you may recall my spring 1982 announcement of a "Debt Bomb," a term which was picked up by much of the international news-media that autumn.

At that time, I conceded that the 1982 debt-crisis could be rolled over for a limited number of years, but I warned that the kinds of actions which could postpone the crisis would only make the crisis much, much worse when it did become uncontrollable at some point during the years ahead. I presented the government with a step-by-step emergency action program for solving the debt-crisis during 1982. I incorporated these same proposals in a book-length report published during August of that year, called *Operation Juárez*.

Inside the administration, on the one side, there were those, including the President's economics adviser, Dr. Norman Bailey, who tended to agree with my analysis; on the other side were those including then-Treasury Secretary Donald T. Regan. President Reagan acted against my advice during October 1982, but the fight inside the administration continued until April 1983, when the President committed himself fully to the policies of Henry A. Kissinger and Secretary Donald Regan's faction inside the administration.

Even after April 1983, many continued to agree with my analysis of the worsening international financial crisis. However, they adopted the alternative of using technical measures to delay the next outbreak of the crisis until after the 1984 U.S. elections. During 1985, most believed that technical measures could postpone a general international financial collapse until after the 1988 elections. So, most leading political factions around the government made political alliances and commitments based on the assumption that the financial collapse would come after President Reagan left office.

My views began to be reconsidered approximately June 1986, as most leading political circles in the United States recognized, that if President Reagan continued the monetary and economic policies adopted over the 1982-83 period, the Republican Party would be severely defeated in the November elections. President Reagan's economic policies were falling apart, and so was the international financial system. During the first half of 1986, there had been a collapse of about 15% in the physical-goods sector of the U.S. economy, and a wave of similar collapse was emerging in Western Europe; June-July polls showed, that many who had supported President Reagan over the 1980-85 period, were turning against him and the Republicans, because they no longer believed in the myth of a "Reagan economic recovery."

The political crises now sweeping across the United States and Western Europe, including the crises in strategic and foreign policies, are chiefly a consequence of the effects of a looming international financial collapse on the economic, social, and strategic policy-outlooks of various strata of these nations.

The so-called "Irangate" crisis, which erupted in the United States immediately after the November 1986 elections, is a leading symptom of the growing conviction that we must change our economic policies in a very profound way, and have very little time remaining to do so. As the *London Times'* Christopher Dunn recently reported, "Reaganomics is dead." Only a handful of stubbornly wishful believers still believe that there was ever a "Reagan recovery" inside the U.S. economy.

Inside the United States itself, the economic conditions are comparable to those during the middle of the 1930s

depression. The percentage of the total population trapped in poverty has reached 1930s levels. The degree of poverty among about 30 millions or more, is worse than among the poor during the 1935-38 period. The degree of collapse of industry, farming, and basic economic infrastructure, is worse than during the 1930s.

Europe is catching up with the U.S. economic depression very rapidly, especially in agriculture and industry.

At the same time, the international financial system is in the beginning of the kind of general collapse we saw during 1931. So-called "Third World" debt is a minor part of the problem. About 90% of the world's collapsing debt structures is concentrated in North America and Western Europe, with more than half of this concentrated inside the banks and other financial institutions inside the United States.

Under the present economic policies of the United States and Western Europe, there is no possibility of generating the kind of growth in incomes which would be needed to prevent an early collapse of the international financial system as it is presently constituted. It is theoretically possible, that very drastic measures, such as those Hjalmar Schacht introduced to the early period of the Third Reich, might delay the international financial collapse for a few months or more; however, the effects of repeating Schacht's policies today would be to lead to the most devastating economic catastrophe in European civilization since the middle of the 14th century.

If we are to stop this economic collapse, we must understand its causes. I review briefly the way in which the present crisis came into existence.

Despite the deep U.S. recession of 1957-59, the period 1949-66 was one of general economic growth in North America, Western Europe, and Japan. Although there were serious errors in the postwar policies adopted by the United States and Britain at the close of the last general war, the modest credit extended under the Marshall Plan stimulated a self-feeding general economic growth among the industrialized capitalist nations.

Our problems of today originated in policy-changes introduced during 1963-66, coinciding with the Anglo-American Liberal Establishment's decision to dump Charles de Gaulle and Konrad Adenauer. By 1967, Britain and the United States were beginning to operate on the basis of a neo-malthusian economic policy of "population control" and "post-industrialization." Beginning the British currency devaluation of November 1967, and culminating in the 1972 Azores monetary conference, the Bretton Woods gold-reserve system of fixed parities of currencies, was destroyed, and replaced with a potentially hyperinflationary system of "floating exchange-rates." It is the combination of "neo-malthusian" economic policies, and the "floating exchange-rate" system, which has brought us into the present crises.

Our nations can quickly turn the present trends around. Three changes in policy are indispensable.

First, we must scrap "neo-malthusian" economic policies and the "floating exchange-rate monetary system." We must

return to a policy of energy-intensive, capital-intensive investments in production, emphasizing high rates of technological progress. We must establish a new system of stable parities among currencies, and use this to promote rapid increase of trade with the traditional foreign markets of Western Europe, Japan, and North America.

Second, we must reach a consensus on the kinds of technologies and investment projects which governments and private investors will cooperate in promoting. Governments must mobilize credit at low prices for farmers and other

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private investors, especially in those technologies we agree ought to have special priority. Governments must also adjust their taxation policies in ways which encourage savings and investments in farms, industries, and basic economic infrastructure. Governments must also recognize their duty to assist in assuring fair prices for products of agriculture and industry.

Third, we must recognize that real wealth is useful physical goods, ranging from transportation-systems such as modern railroads, highways, river transport, and ocean ports, and including production and distribution of power, water-management systems, and so forth, and including the products of farming, manufacturing, and construction. The larger the percentage of our labor-force employed as skilled workers in producing physical wealth, the greater the real income of the society.

Certain kinds of services are essential for promoting the productivity of labor. These include factory direct management of production, include scientists, engineers, teachers, and health care. Administration, sales, and other kinds of services are necessary to society, but these forms of employment do not increase wealth in any direct way.

We must choose employment policies which help to increase both the number of people employed in producing physical wealth, and helping those employed to increase their skills and raise their productivity.

These three policies are the lessons of every case of successful economic growth in the modern history of Europe and North America. Recovery means, going back to these sound, proven policies, and rejecting the malthusian and monetarist policies which have been proven to be such terri-

ble failures.

Today, there is a growing number of very influential people inside the United States, who not only recognize that we are entering a new world depression, but who would accept almost all of what I have just said. It is my best information, that during the next three months, this growing faction inside the United States will become more and more visible.

There are many misguided people, who say that there is not enough money available to launch an economic recovery.

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Let us challenge these misinformed people with a very simple question: "If all the money in the world were to be destroyed, would production come to a halt?" Of course not. Wealth is not money. Wealth is labor employed in farms, industries, and basic economic infrastructure. Without money, trade and production would function on the basis of barter. Since barter is not very efficient, citizens would demand that governments create credit for production and trade, in the form of a new issue of money.

Forget about money for a moment. Our potential for producing wealth is the labor available to be employed in production of various kinds. By putting idled or presently misemployed labor to work, using the idle part of industrial and other production capacities, we could approximately double the physical output of Western Europe and North America. By using some of this increased production for export of food and capital goods to our traditional markets among developing nations, we could quickly double the national physical product in those importing nations.

Some would say, "But, where is the money to pay wages?" Wages are really food, clothing, housing, health care, education, and so forth. If the government issues credit to farmers, industries, and so forth, those farms and industries will supply the goods and services which make up real wages. The government issues credit to industries for wages-payments, and those wages then pay off the credit which government issued for production of the goods and services making up wages.

If the level of total physical output is high enough either to supply all goods needed by households and producers, or

to trade for those goods, all of the credit issued by government to accomplish this production and trade is a solid investment, with no inflationary effect.

We can begin a general economic recovery at any time the governments make the decisions which expand employment in the most useful branches of production of physical goods and essential services. The problem today, is that we can not do this under existing financial and economic policies. The question is, when will governments come to their senses, scrap failed financial and economic policies, and get back to the kinds of policies which served our nations so well in the past?

If governments make those long-overdue decisions, a genuine economic recovery will begin. However, to ensure that that recovery is a stable one, some additional problems of policy-making must be solved.

My special concern, is to ensure that there is genuine cooperation among such forces inside the United States and leading forces inside Western Europe, Japan, and the developing nations. If our nations can agree on the general principles of a recovery policy, and if we can end the silly trade-wars of today, and restore genuine cooperation, there is no visible reason we should not succeed in achieving the kind of stable economic recovery we need.

Let me be cruelly honest about the political situation in Western Europe and many other parts of the world today. Since I am a leading public figure of the United States, it is useful and important that I clear the air, by stating the bad part of U.S. policy toward Europe over the course of the past 45 years.

By 1942, it became obvious to leading circles in Britain and the United States, that the United States was the world's dominant power. At approximately that time, these circles adopted a policy named "the American Century," under which the combined Anglo-American interests, dominated by the power of the U.S. partner, would virtually rule most of the world as a kind of "third Roman empire." Despite the nationalist impulses within Western Europe and elsewhere, the power of the Anglo-American Establishment has been so great, that whatever was agreed between New York City and London tended to be the policy adopted in various other nations.

The system was never a politically just one, but it has been the system under which continental Western Europe, and other parts of the world have developed their policies and leading institutions. For many of the problems of policies and institutions inside Western Europe today, the United States is chiefly to blame. Today, that "American Century" policy is all but dead, and yet the combined power of the United States and European habits of following Anglo-American leadership lingers on.

Two facts follow. The first fact is, that the possibility of escaping from the present catastrophe depends upon changes in the policy of the United States. Without cooperation and support from the United States, Western Europe is militarily

and economically defenseless. The second fact, is that we can not rebuild successfully unless a new kind of cooperation is established, to replace the outworn American Century system. Efficient respect for the national sovereignties, cultures, and vital interests of the nations of Western Europe, Japan, and developing nations, is an indispensable part of effective future cooperation. We must establish a community of common principles and objectives among these sovereign states.

The establishment of such a community requires some very well-defined common objectives, in addition to our common desire to restore general prosperity among each of the economies, and growth of world trade. I have proposed two special kinds of common objectives. I have chosen these because they are of great moral importance, and also of great economic advantage to each among the nations involved.

The first, is the establishment of a just international economic order, in which all nations and peoples have full rights to access to means for improving the productivity and well-being of their populations. Let us end the most cruel and obscene feature of the human condition today, the sea of brutal poverty crushing the majority of the world's population. If we undertake that, each of us can live in the assurance that our great-grandchildren will have reason to be proud of being descended from us.

The second, is the exploration and colonization of space.

I shall conclude my remarks by summarizing my proposal for founding a permanent colony on Mars by the year 2027 A.D. I shall focus upon the role of Western Europe in this, the Federal Republic of Germany most emphatically.

For the coming 50 years or more, all major technological progress will be based on the continued development of four branches of present-day scientific work. First, the development of extremely energetic controlled plasmas, both as new sources of energy-supplies, and as new kinds of production processes in metallurgy and other fields. Second, the development of lasers and related kinds of devices, which shall become the basic machine-tool technology of the future. The third, is what is usually called optical biophysics. The fourth, is a pair of revolutions in design of computers and related kinds of control devices.

If we develop these four branches of technology in a somewhat coordinated way, we shall have every means we need to establish a virtually self-sustaining permanent colony on Mars about 40 years from now. For many of you, your grandchildren will be able to reach Mars from Earth in an average of less than two days' travel, less than an ocean voyage across the Atlantic today. Freight will reach Mars from Earth's orbit in a few weeks travel in spaceships larger than today's supertankers. We already have the basic technologies now in the process of being developed in laboratories.

The practical reason for building a colony on Mars, is to conduct certain astrophysical observations which can not be made from the vicinity of Earth. We need that astrophysical knowledge to help us in solving certain important physics

problems of production here on Earth. Those discoveries will repay our nations thousands of times over.

However, there is another, earlier benefit. Every technology we must develop, for each of the steps of preparing for the colonization of Mars, will have immediate important uses on Earth itself. With these technologies, we can green the great deserts of the world, and provide the highest standard of income and health for all, at a mere fraction of what it costs today.

There are, in Germany and elsewhere in Europe, only relatively tiny elements of a future aerospace industry, and a precious stratum of mostly small machine-tool industries whose existence depends upon the expansion of the aerospace sector. If this aerospace sector is expanded, by giving it an expanded role in various aspects of a Mars-colonization mission. This aerospace industry and its supporting machine-tool industries will be the driving-force for great technological advances in every sector of industry. Germany and France are in relatively the best condition. Britain's potential is near the edge of collapse, and a very small, but also very important potential in Italy hangs by a thread. If these nations lose their aerospace potential, their economies will tend to slide into the conditions of poverty of semi-developed nations, because they will lose the potential for keeping up with the technologies of nations which have such capabilities.

The colonization of Mars will have two beneficial effects upon our nations. The most obvious benefit, is the moral advantage of lifting the eyes of our young people up to the stars, and thus assuring them that mankind does have a bright future, worth working to provide for their children and grandchildren. The practical benefit, is that this work will stimulate our technologies here on Earth, and thus give us rates of economic growth not otherwise likely to occur.

The world has reaching a *punctum saliens*. On the one side, the continuation of present policies guarantees catastrophe and general despair. New policies offer us much hard work, but also recovery, and the certainty of a bright future for all mankind. I, for one, can not sit back and wait, to see which choice our governments will make. Each of us, in our own way, must act to ensure that governments make the right choice.

As we review, here, today, some of the practical steps for overcoming this present economic crisis, we are taking an indispensable step. By giving practical attention to these possibilities before us, we are better able to see what can and should be done in a practical way. We can not limit our attention to a few pleasant generalities, however valid those general observations might be. We must make our consciousness of the new opportunities practical ones, by presenting and discussing concrete investments and production which our nations can begin almost as soon as the new economic policies are adopted. It is the noble business of the pulpit to inspire hope; it is the business of the rest of us to take that hope into the farms, laboratories, and factories, and express that hope in the form of objects which satisfy human needs.