IV. From Lyndon LaRouche

March 3, 1987

LaRouche Urges: Export Goods, Not Money

by Lyndon H. LaRouche, Jr.

Mr. LaRouche, who released the following analysis on March 3, 1987, was then a candidate for the Democratic Party's presidential nomination in 1988.

EIRNS/Stuart Lewis

Lyndon LaRouche, in a 2011 webcast in Herndon, Va. His 1987 diagnosis has proven astonishingly prescient today.

The February 20, 1987 actions by the government of Brazil signal an early collapse of the international monetary system in its present form. Some of the world's leading bankers have stated their agreement with this analysis. Even a number of OECD nations' governments recognize that very sweeping changes are inevitable, and that these could come as early as some weeks ahead, or be delayed no longer than several months.

Whether Citibank likes it or not, and whether or not the Reagan administration is willing to accept this fact at the present moment, the Reagan administration is not going to get through the coming 18 months without having to face the choice between either a sweeping reform of banking and economic policies, or the biggest world financial collapse in modern history.

Brazil's actions may have brought the political side of this crisis up to the surface a few months earlier than if Brazil had submitted to another round of International Monetary Fund conditionalities. Brazil's actions have not caused the crisis. If Brazil had not acted, the accelerating collapse inside the U.S. banking system would have caused the showdown.

The banks are helpless. There is nothing which the banks or the IMF could do, at this stage, to bring the crisis under control. Anything the banks might attempt to do, now, would have the effect of making the crisis worse. It is now up to the governments; the banks must step out of the limelight, and leave the decisions to the governments.

Governments Face Two Choices

Governments have two choices. The banks would hope that the U.S. government would bail the banks out, by buying up the banks' bad paper. That must not be done; it would lead to a hyperinflation like that in 1923 Germany. The second choice for government, is to put the banks, the IMF, and the World Bank into bankruptcy reorganization. Bankruptcy reorganization

---

Editor's Note: EIR first published this article in Vol. 14, No. 11, March 13, 1987, pp. 54-56.

is the only workable alternative. Either governments implement that alternative very soon, or the world's financial system is plunged into the worst collapse since the 14th Century.

There are effective solutions for this crisis. As President, I am fully prepared to take a series of actions which would bring us out of the crisis rapidly. Or, were another President to ask for and follow my guidance, the crisis could be overcome in the same way. I do not know whether or not my leading role is absolutely indispensable for overcoming such a crisis, but every indication suggests very strongly that my leading role is indispensable for a successful outcome.

Therefore, it is important that I explain each key point at issue in meeting such a crisis. Here, I focus upon a key feature of the economic recovery policies required; the kinds of credit-mechanisms needed to expand U.S. exports and world trade very rapidly.

The President's and Congress's actions to stimulate such large-scale expansion of U. S. exports will occur in the setting of the following kinds of emergency financial-reorganization measures.

The U.S. President must declare an economic emergency, using the powers which the Constitution and existing law provide for such a situation. The Federal Reserve System must be transformed, in effect, into the Third Bank of the United States. The principal amount of the unpaid balance of non-performing loans on the banks' books must be frozen at that value as a matter of law, thus enabling the banks to continue day to day operations. Capital-flight and exchange controls must be imposed, to prevent banks and the dollar from being looted by speculators. The government must enter into negotiations with foreign debtors, to reschedule the repayments of principal amounts of the present debt potentially in default.

Those measures halt the crisis temporarily. The President, with cooperation of the Congress, must take a series of actions to launch rapid expansion of domestic production of physical goods, and increase of world trade. The key to this, is to increase the volume of annual U.S. goods exports by not less than $500 billion above 1986 levels. The means for accomplishing this, is to pour in new credit to U.S. farmers and industries, both to supply operating capital needed to produce exports, and to retool production for such output.

Under this arrangement, no U.S. currency leaves the United States. We do not loan money to foreign nations; we deliver them goods on delayed-payment terms. The money loaned, is issued to the U.S. producers of such exports, to carry them over the period until they are paid for the exported goods. The object is to provide U.S. exporting industries a minimum of $500 billion a year over the level of export-financing available during 1986.

Some might ask: "Why give these developing nations new credit, when they were unable to repay the old debts?" The question is a common one. People ask that question because they do not understand how foreign debts of Mexico and South America became so much of a problem during recent years. People usually make the mistake of believing that countries' debts were caused by countries' buying something of value. The problem is, that these countries received nothing for as much as between 80% and 90% of the total debt they are carrying today. For example, out of about $108 billion of Brazil's foreign debt, about $20 billion, at most, represents values actually received by Brazil.

We must not repeat that sort of nonsense. We must ensure that the indebted nations do not incur a penny of new debt for anything but good value imported. We are not going to loan them a penny of money; we are going to extend them a line of credit to purchase useful things on a shopping-list of U.S. export goods. The point is to supply them with capital goods they need to expand their manufacturing employment and to increase the productivity of their labor. We are going to help to build up their levels of production of physical goods, so that they will be able to pay for what they buy, and to invest in further expansion of their economies at the same time.

U.S. Economy Must Export Again

Let's look at an example of the point I am making. Suppose some investor bought up all the stores in the United States, and charged such high prices that all of the stores' customers were bankrupted, and no longer able to buy at those stores. Would you consider that investor a sensible businessman, running a business for the purpose of eliminating all of its customers? I intend to put the U.S. economy back into the export-business in a major way, and I do not intend to lose our export business by eliminating our customers. I intend to build up an expanding market for U.S. exports. To

succeed, we must understand that what is good for the United States' foreign customers is good for the U.S. economy.

I admit that our manufacturers can not compete with Japan's or even West Germany's on the world market. The reason is very simple: beginning about 20 years ago, we slowed down our investment in new productive technologies for our basic industry. Our industries are using out-of-date technologies, so that our labor produces less physical output per hour than labor in Japan or West Germany.

Japan has overtaken us in production technology and hourly productivity, because they have been investing in production of capital goods, while we have not.

cc/Somesomething243

LaRouche insisted that we once again make "goods-producing industries … the standard of technological excellence." Here, a machinist inspects a computer numerical control lathe.

Also, the U.S. economy has the highest ratio of overhead of any major economy in the world today. Only about 20% of our labor-force is employed in producing goods; the rest are either unemployed, or employed in administration, sales, and poorly skilled services. Onto every pound of physical output of our farms and industries, we have to tack on an overhead charge to pay for all that unemployment, administration, selling, and services. In other words, on the basis of wages-ratios of costs, every U.S. dollar of sales price is loaded with about eighty cents of overhead charges.

With these two factors, we have priced U.S. goods out of the world market. Our production methods are obsolete, for lack of investment in energy-intensive, capital-intensive forms of technological progress. As a result of 20 years of a lunatic shift away from basic industry into low-grade services employment, we have the highest ratio of excessive overhead costs of any leading economy in the world.

I intend to use increased exports of high-quality capital goods into the developing sector, as the way in which to restore our trade-balance, and, even more important, to restructure the internal U.S. economy, to shift away from employment in administration, sales, and low-skilled services, into employment in the production of physical goods.

In this way, we accomplish several things.

1) We build up the economies of developing nations, so that they can carry debt-payments at a sensible level;

2) We develop a continually expanding market for U.S. export-goods, meaning many millions of additional U.S. jobs;

3) We rebuild and expand our goods-producing industries, making them again the standard of technological excellence;

4) We restructure our labor-force's employment, away from low-paid service employment, back into skilled, productive employment;

5) We expand the tax-revenue base of federal, state, and local government.

There are no tricks with mirrors. Wealth is quality physical goods. Wealth is produced, and produced best by upgrading the quality of employment to increase the number of people employed in producing physical goods. Productivity is increased by technological progress, which requires more energy per person, and more capital-investment in production per person. Tricks with mirrors have run our economy for 20 years. Enough of bookkeeping tricks; it is past time to go back to the old-fashioned habit, of employing more people to produce more quality physical goods, using technological progress to increase productivity. That is what the indebted developing nations require. That is what we require. So, an end to the tricks, and back to old-fashioned American ways of doing things.