CONGRESS FACES NEW TURN

On the Subject of Strategic Bankruptcy

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A rising series of political earthquakes is now shaking the world.

Now, the financial collapse of the air-passenger-transport industry, hitting the Pension Benefit Guaranty Corporation from United Airlines today, and perhaps Delta and American Airlines next, intersects the efforts of GM/GMAC to dump the auto-workers' pensions, and the threatened collapse of GM, Ford, and others, threatening to set off a global hedge-funds panic. At the same time, the planet as a whole has already been seized during past days, by a panic-ridden hedge-fund crisis which is orders of magnitude worse than that of August-October 1998.

Now, what will happen, very soon, will stagger your imagination.

The world as you thought you knew it, the day before yesterday, is no longer the same world today. Things you had thought would work, no longer work.

That is already the way you must see how the world is changing. Now, already, you witness the converging impact of, on the one side, pensions hit by spreading bankruptcies of major airlines, with, on the other side, the onrushing threats from the financial collapse in the auto industry. These, and related developments, create a specter of already global, epidemic bankruptcy with which existing U.S. government practices are essentially incompetent to deal. This situation requires the immediate institution of new governmental mechanisms for managing what must be fairly described as a condition of *strategic bankruptcies,* bankruptcies with which presently existing mechanisms of government are essentially incompetent to deal.

In the financial world, it is as if someone had suddenly turned on the light in the kitchen, and floods of hedge-fund cockroaches are swarming in all directions. The existing world financial system can do nothing to stop this panic! It can only rage, scream, and smash things, all of which would only make everything worse than the moment before.

The world needs the calming voice which says, "It's only money!" It would be a very good thing if that voice were to be the voice of the U.S. Senate.

1. What Is 'Strategic Bankruptcy'?

A series of bankruptcies which virtually wiped out several categories of the republic's essential industry, would have to be classified by a term of no less impact than "a state of strategic bankruptcy." The threatened collapse of most of the U.S. domestic production capacity of principal manufacturers Ford and General Motors, would mean not only the loss of the production of automobiles, but the loss of a crucial, major portion of the essential machine-tool capacity on which the viability of the U.S. economy as a whole, not only automobile manufacturing, depends. That would be implicitly a more severe long-term defeat for the U.S. economy than Germany's industrial potential actually suffered after the close of World War II.

The present plight of the passenger airlines is also a strategic issue. The case of the airlines has two strategic implications which require emphasis here. The first such implication is the effects of airline deregulation, which was one of the key items on the agenda of practice of the 1977-1981 Carter Administration's submission to the Trilateral Commission's ruinous, multi-faceted program of deregulation. The second, is the blowback effect of this deregulation program on the section of the machine-tool capacity associated with the aircraft and related sectors of industry.

The desperate financial straits of United Airlines and other vital firms require immediate action. "The world needs the calming voice which says, 'It's only money!' " says LaRouche. "It would be a very good thing if that voice were to be the voice of the U.S. Senate."

The combined effect of the chain-reaction financial collapse of the national automobile manufacturing and air-transport sectors, is the presently accelerating threat of dumping of pension obligations of both the airlines and automobile industries, suddenly, on the Federal Pension Benefit Guaranty Corporation. Without novel measures of government intervention, this presently threatened development would mean a wrecking of the present, non-private system of private pensions, leaving the completely Federal Social Security System as virtually the only pension system for the lower eighty percentile, or more, of the population as a whole. The implication of such a set of combined and related developments would also have to be classed as a case of "strategic bankruptcy."

Bankruptcies, or comparable collapses of the general class typified by these cases, can not be absorbed safely within the private sector as presently constituted. The Federal government must create the institution, the mechanism of re-regulation, and applicable formulas through which strategic problems of this general magnitude and importance are addressed.

2. 'It's Only Money!'

The following kind of discussion is essential for defining the action appropriate for this class of cases.

The essential distinction of, and superiority of the original U.S. Federal constitutional system over the monetary-financial systems of Europe, is typified by the constitutional monopoly of the Federal government in the matter of the utterance of currency and related forms of credit. In contrast, the economic systems of Europe have been, generally, based upon the subordination of the authority of government to what are called "independent central banking systems." To the extent that the U.S. has been subjected to overreaching and intruding influence of the financial-monetary systems of Europe into the internal business and political affairs of the U.S.A., U.S. national economic policy-shaping has been a battlefield of contention between our national-constitutional and foreign financier-monetary systems.

The only construction on this issue which could be derived from our Federal Constitution, is the notion of national banking famously associated with Treasury Secretary Alexander Hamilton and the leading Nineteenth-Century national economists of our republic Henry C. Carey and the German-American Friedrich List. Typical opponents of this national-banking policy have been the Bank of Manhattan's Aaron Burr, land-bank scammer and Andrew Jackson sponsor, President Martin van Buren, August Belmont, and so on. During much of this period, U.S. policies were subjected to the overreaching imperial influence of the Bank of England's position as the dominant figure in the world's system of international loans. This British imperial influence dominated world markets, and penetrated deeply into the internal affairs of our nation and its government.

Against this historical background, President Franklin Roosevelt's program of economic recovery from the deep depression bequeathed by the combined effect of the Bank of England's and the Coolidge and Hoover Administrations' economic policies, was the product of President Roosevelt's philosophical orientation toward the legacy of national banking which is implicit in the original design and composition of our Federal Constitution. The design of the original, 1944-1945 design of the Bretton Woods fixed-exchange-rate system, employed the uniqueness of the U.S. dollar's value for the successful, 1945-1964 growth of both the U.S.A. and many other nations of the world, including those of wartorn Europe.

The general background which must be taken into account to understand this crucial, axiomatic difference in economic policy between the constitutional tradition of the U.S.A. and the prevalent parliamentary systems of Europe, is the fact that the deadly conflict between the English-speaking states of North America and the British monarch and parliament, dated from the February 1763 Treaty of Paris which, in effect, established the British East India Company's emergence as the principal imperial power of this planet. It was the attempted subjugation of the American colonies to the rapacious policies of a parliament controlled by the agents of Lord Shelburne's British East India Company, which prompted the 1776 Declaration of Independence, and defined the circumstances under which our unique design of Federal Constitution was composed and adopted.

During 1782-1783, the assumption among many of our leading patriots had been that the vast support for the American cause in Europe would mean reforms in Europe reflecting the same principles which the struggle for American Independence had signified in the opinions of those European sympathizers and supporters of our cause. The effects of the French revolution and Bonapartist regime of 1789-1815 spoiled that prospect. From 1815 through 1848, the leading forces of the world, the rival British and Habsburg interests, were equally committed to our destruction. With the developments of 1848, the British Empire and its far-flung monetary-financial power was the dominant world system within which our republic was enveloped.

It was only through the U.S. events of 1863-1876, when the U.S. emerged as a leading world economic power, that many rivals of the British Empire, such as Bismarck's Germany and Alexander II's Russia, like Meiji Restoration Japan, adopted the American System of political-economy, as defined by Henry C. Carey, for the industrial self-development of the continent of Eurasia.

The relevance of this history to the U.S. economy's present strategic situation is, briefly, as follows.

The Eighteenth-Century British system was known within Europe under the alternate names of "The Enlightenment," and "The Venetian Party." This name was premised on the fact that systems of the Dutch and English India companies were based on the earlier Venetian model of financier-oligarchy. Under that system, as under the influence of the British monarchy from 1763 to the present time, financier power has usually reigned over the governments of nations. The Twentieth-Century and present world systems of financier-oligarchical rule through "independent central banking systems," is the modern expression of that Venetian-style financier-oligarchical system of financial tyranny.

It is not accidental for us in examining this subject here today, that President Franklin Roosevelt was a descendant of New York banker Isaac Roosevelt, who was an ally of Alexander Hamilton, and, like Hamilton, an opponent of British Foreign Office official Jeremy Bentham's asset Aaron Burr and Burr's Bank of Manhattan. Moreover, this character of Franklin Roosevelt's outlook was shown in writings as a Harvard University student, and in his direction in crafting those policies which enabled the U.S. to rise to immense economic and other power in making possible the defeat of the Adolf Hitler who would have otherwise triumphed as a new Caesar for the world at large.[1]

The relevance of these bare historical considerations to the present strategic-economic threat to our republic, is the following.

Currency Has No Intrinsic Value

No truly sane and civilized adult would object to the statement that paper money, obviously, has no intrinsic value. This was clear to the Massachusetts Bay Colony which made the first use of a paper currency, quite successfully, up to the point the British monarchy and parliament, in 1688-1689, suppressed what had been the highly successful Massachusetts currency used to promote high rates of net physical growth in that commonwealth. The defense of the revival of such a paper-currency policy by Benjamin Franklin, is one of the leading influences on which the U.S. Constitution's provisions respecting national currency were premised. Money in a civilized modern republic has no greater nor lesser value than might be attributed to it as an instrument of credit, just as it was so used by the Massachusetts Bay Colony, and as our Federal Constitution defines its proper creation.

Under our Federal constitutional system, it is the Federal government which holds a monopoly over this use and regulation of the national currency. This constitutional intention was built into the original design for the Bretton Woods monetary system. Several factors, which I have addressed in other published locations, but which need not be discussed in this location, weakened the effectiveness of use of the original design. The crucial change for the worse, which must be emphasized here, was the effects of the first Prime Ministry of the United Kingdom's Harold Wilson, which, in 1967-1968, undermined the position of the U.S. dollar, and pushed President Lyndon Johnson into a concession which was the first step toward the formal break-up of the Bretton Woods system by the U.S. Administration of Richard Nixon.

The succession of the Nixon Administration's August 1971 repudiation of the defense of the U.S. Bretton Woods dollar, the Azores Conference, and the later Rambouillet conference, thoroughly destroyed the Bretton Woods system of fixed exchange rates. The Trilateral Commission's destruction of the essential protectionist and related regulatory fea-

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1. The defeat of the Axis alliance at Midway and at Stalingrad, were the crucial turning-points of 1942-1943 in that war. Without the economic might generated by President Roosevelt's national economic-recovery program, those victories would not have been possible. Otherwise, Hitler would surely have become the new Caesar of the world.

tures of the U.S. recovery from the 1930s Depression, had already created, by 1981-1982, under Federal Reserve Chairman Paul Volcker, the mess of physical economic and monetary-financial wreckage which grips the U.S.A. and the world at large today.

The seismic economic rumblings within the U.S. economy and world today, are the outcome of, chiefly, those changes from the Bretton Woods system which have occurred during the 1971-2005 interval. The crises so created can be overcome only through attacking the cause of our present, global catastrophe at its original source. We must act to establish the new system of long-term credit under which a stable dollar, within a fixed-exchange-rate system, reigns once again.

Any efforts to attack the problem by lesser methods will assuredly produce nothing other than a disaster of incalculable dimensions.

3. The Role of U.S. Credit

The immediate danger is, that postponing certain urgently needed U.S. reforms would ensure a chaotic collapse of the present world monetary system. Since that system, all other considerations properly put aside, is the basis for the present world system, only immediate action to stabilize the dollar-denominated world monetary system could prevent a rather immediate, extremely deep, chain-reaction collapse of the economies of all nations of the planet. The degree of wild-eyed financial inflation built into the financial-derivatives aspect of the present world system would, if honored, assure such a deep, deep collapse were that not prevented by appropriate remedial action.

To the extent that presently outstanding financial obligations are stated in terms of currently scheduled obligations, no escape from the worst imaginable disaster were possible. To avoid the worst, two preconditions must be satisfied. First, financial derivatives must be treated for what they are, "gamblers' side-bets," and erased from the calculations. It is traditional forms of sovereign obligations of nations which must command our attention, above all else.

The available remedy is to be found along the following lines.

On the condition that we commit ourselves to high rates of gain in investments in basic economic infrastructure, agriculture, and industry, and that we use a long-term, fixed-exchange-rate system for this mission, our option lies in commitments to converting the largest portion of the principal debt of governments into long-range, low-interest credit of between a quarter-century and a half-century maturities.

To illustrate the point, consider the spectacle of the U.S. auto industry today. The industry has attempted to flood the retail market with product whose residual value after depreciation would become quickly less than the amount of the debt outstanding as implied security against that depreciated product. This is what occurred, leading into the deep 1957 U.S. recession; a similar pattern, of far worse implications, prevails today.

The industry must be reorganized, so as to reduce the quantity of vehicles sold, by shifting the composition of the industry's product to the markets for other classes of products, products which utilize the crucial machine-tool capability currently associated with the auto industry. Much of the needed diversification of product-line falls into relatively high-technology categories of product required for basic economic infrastructure.

Similarly, the general fault in the composition of U.S. national product today, is a result of a generally accelerating shift toward a so-called "post-industrial" economy since approximately the 1967-1968 interval. The result has been a collapse of the ratio of productive employment to labor-force, combined with a decline in physical productivity of the labor force per capita and per square kilometer of relevant area of habitation and production.

Any recovery of the U.S. economy (in particular) will depend upon a reversal of the post-industrial trends since the mid-1960s, or else no recovery would be possible. This means a shift back toward what used to be called "blue collar" employment, with an initial heavy emphasis on repairing our nation's present dilapidated and rotting basic economic infrastructure, while using this reorientation to upgrade the productive skills and conditions of life of a relatively enormous ration of unskilled and marginalized strata of the population.

A large ration of the total employment, financed by long-term government-organized credit for infrastructure and related investments, will be associated with long-term investments in basic economic infrastructure. Thus, the credit created by government for the purpose of such projects will be secured against long-term investments in building up essential basic economic infrastructure.

In addition to domestic investment, there will be a vast, growing investment in international development, as typified by the growing trade between western and central Europe and China.

The greater portion of this combined public and international investment will be associated with long-term credit at low simple-interest rates, reaching into the quarter-century and longer maturities. This emphasis on long-term credit generated for use in such modes means that the net composition of debt carried from the present, into the future, will shift the balance of debt-obligations, to bring financially teetering governments and private banking systems into stable long-term configurations at basically low interest rates.

In such a setting, on condition that high rates of technological progress are the prevalent condition, long-term pension and heath-care systems can be secured by a more than suitable rate of growth of assets in the economy.

Thus, under such conditions, we are able to make pledges to the future which have the effect of being well-secured savings built into the accounts of today.

There have been many foolish errors in the shifts in patterns of behavior by government and the population during the recent half-century or so. The most significant error, from the standpoint of physical economy, has been the shift to what is called the "post-industrial" policy of a "deregulated economy." Of all the mistakes we have made, this has been the greatest single contribution to the cataclysm descending upon our economy today. Unless we are willing to change that, to return to the proven policies of the infrastructure-based agro-industrial development of the U.S. economy during earlier times, there is no hope for this nation, no matter what we choose to do otherwise. If we do learn the lesson from the error of our "post-industrial" ways, the powers of government under our Constitution could once again rescue us, as such a policy succeeded under President Franklin Roosevelt's leadership.

4. If, Then, We Wish To Survive

If we decide on the re-industrialization, re-regulation route to national survival, the task of the Congress is to create the authorization for special agencies dedicated to managing the transition for otherwise doomed entities fallen into bankruptcy. In general, this creation of such agencies should be limited to cases which, firstly, have the character of vital strategic institutions, and, secondly, for which a clear option for a successful, medium- to long-term recovery is foreseeable.

The essential authority for this kind of remedy lies in a central provision of the Preamble of our Federal Constitution, the promotion of the general welfare.

This provision, known to students of Classical Greek and Christians otherwise as that principle of *agapē* which is central to ***I Corinthians*** 13, is the foundation of the creation of the modern sovereign nation-state, which has been otherwise described as a commonwealth. It is also the central principle which brought approximately to an end the reign of religious warfare which polluted modern Europe from the 1492 expulsion of the persecuted Jews from Spain until the signing of the 1648 Treaty of Westphalia, a treaty based precisely upon this principle of natural and constitutional law.

This is also the principle which the founders of the 1776 U.S. Declaration of Independence adopted, from Leibniz's refutation of John Locke, "the pursuit of happiness."

A promise to deliver depends upon the efficient motive to perform as promised. The Congress, the Senate, as the responsible, continuously reflective body of the Congress, must limit itself to adopted means which accomplish necessary ends by means whose feasibility is foreseeable. Such are the solutions for the strategic challenges to which I have given attention here.