

# How Ibero-America should respond to the coming financial crash

by Lyndon H. LaRouche, Jr.

*The following commentary was edited from oral remarks made by Mr. LaRouche on Aug. 21, 1989.*

Under the present trends, all the nations of Ibero-America will go into, at an accelerating rate, a worse catastrophe than that which Mexico has suffered since 1982, when Mexico capitulated to Henry Kissinger's conditionalities, the International Monetary Fund conditionalities, which have brought Mexico to the point of dissolution and the virtual beginning of genocide in that nation, genocide caused principally by economic breakdown. In the case of those nations which have not yet undergone this, it would not take that long. It would be a very rapid collapse.

The thing to remember in this case, is that the world monetary system is collapsing. We can expect somewhere between October and sometime into 1990, depending on how programs are adjusted, the greatest worldwide financial collapse in history. It's on the way. So any nation which is clinging to trying to work within the terms of the existing monetary and financial system is actually committing an act of suicide. That system is going to collapse.

The question is, how do we or any part of the world economy, under those conditions of financial collapse. We're talking about \$17-\$20 trillion in nominal values worth of paper instruments exposed in international markets, dropping to a few trillion dollars of nominal value—that sort of collapse is what we're expecting.

Under those conditions, and under conditions of galloping inflation and galloping deflation, what do we expect we could do with the monetary system? Precisely nothing. We have to build a new monetary system.

## **New national currencies**

The new monetary system will have to be based upon principles which were understood by Gottfried Leibniz, the founder of the science of economy, and such spokesmen in the late 18th and early 19th centuries as U.S. Treasury Sec-

retary Alexander Hamilton, the two Careys—Mathew Carey, and his son Henry C. Carey, the economic educator of President Abraham Lincoln—and of course, the great German-American, Friedrich List. These principles would be the standpoint from which we can understand historically how to rebuild a monetary system out of the shambles which we must expect to hit during 1989-90.

This means the emphasis must be laid on two things.

*First*, physical economy. Forget everything which is associated with Adam Smith, forget everything which is taught by these idiots and babblers in economics departments in universities, and by the idiots and babblers of the economic profession generally. Forget this fascist John Maynard Keynes and similar kinds of people. Get back to basic principles, as understood by people like Hamilton, List, and the Careys.

*Secondly*, an emphasis upon the unique power of sovereign governments, of sovereign nation-states, to create currency, to enjoy a monopoly over the creation and issuance of a national currency. In short, we are going to have to scrap, call in, discontinue virtually all of those currencies which are part of today's international monetary system. We are going to have to issue, in place of present currencies, new currencies. These currencies will be issued on the authority of those governments of sovereign nation-states which have the sanity to do this. Those currencies will be issued through national banking methods akin to those proposed by Secretary Hamilton, in the establishment of the First National Bank of the United States, and used again in the case of the Second National Bank of the United States during the period of Presidents James Monroe and John Quincy Adams.

What we shall have to do is lay the emphasis on physical economy in the following terms. The kinds of actions I am now describing should be taken within, hypothetically, the initial 72 hours of crisis-response by a leading government.

The task is to get existing resources—this means agriculture, manufacturing, and basic economic infrastructure—into motion at all costs. Every viable section of physical

production and development, and maintenance of economic infrastructure, must be put back into motion as rapidly as possible. What must be done is that the new issue of national currency must be loaned through national banking at a modest discount for medium-term and long-term loans to agriculture, manufacturing, to investments in maintenance and improvement of basic economic infrastructure, and to some degree, for financing of foreign trade, in order to get the economy moving again.

No significant loans, except for special governmental uses, such as national defense, should be made directly to any other sector of the economy, such as the finance sector. But rather, the other sectors of the economy, apart from agriculture, manufacturing, and infrastructure, should rely on secondary credit generated through banks on the basis of deposits by agriculture, manufacturing, and infrastructural activities.

That's the basic recovery program: physical economy.

The government must operate on the basis of strict protectionist measures, both domestically and foreign. It must prevent, under these conditions, money issued for agriculture, manufacturing, and infrastructure, from falling wildly into other sectors. It must ensure stable prices domestically. It must ensure stable prices, at a level above the cost of production, of exports. It must protect domestic production against dumping by foreigners.

These protectionist measures, as emphasized particularly by traditionalists in the system of national economy, must be employed. Otherwise, a potentially successful program could be sabotaged by failure to do that.

It must be understood that the political authority for going for this form of protectionism—not the Adam Smith form of protectionism, not the free enterprise form of protectionism—the authority for this, the moral authority, is twofold. First, this is scientifically sound, whereas the anti-protectionist philosophy of today is unscientific and anti-scientific. Secondly, the greatest financial collapse in history, now in progress, at least the greatest financial collapse since Europe in the 14th century, will have demonstrated to people that the policies of the United States and other nations under the International Monetary Fund during the preceding 40 years or so have been clinically insane.

The fact that these policies, which are now still somewhat popular among governments, will become recognized generally as having been insane, will provide a moral and political authority for ignoring the anti-protectionist and related, pro-Adam Smith nonsense, which rules the international system today.

What must be done at the same time—as I have laid this out, or my friends have laid it out, in various publications such as the *Operation Juárez* book and the book on integration of Ibero-America, the book on the question of the industrialization of Argentina—we must have at the same time cooperation among nations which are engaging in these pro-

grams, to promote trade. For example, in South and Central America, we have a region which has in large degree a common language, the various Iberian dialects, predominantly. These nations are well situated to trade with one another, and to strengthen their own internal economies respectively through that trade. That is, a division of physical labor among these economies is to the advantage of all. Since the economies are more or less proximate, in the same region, the greatest benefit and the lowest relative physical cost is ensured. This ensures the relatively highest rate of growth in each of the participating nations.

In summation, emphasis must be on physical economy: agriculture, manufacturing, and basic economic infrastructure. Number one, credit must flow at low rates of interest to get this moving, to match labor, land, and other physical capacity in such a way as to get production, development, and full employment in these areas at the most rapid rate. This is done by the issuance of a new national currency replacing the old national currency. The issuance of this new national currency through national banking methods must be at modest discount rates in the form of medium- to long-term loans for agriculture, industry, infrastructure investment, maintenance and operations. As well, financing is necessary in medium- to long-term rollover credit for exports, and to some degree covering the domestic side of imports of physical capital for improvement of these sectors.

Those are the essential measures which must be taken.

## **Water, energy, transportation**

Now, what must be emphasized, contrary to the idiocy of the psychotic World Bank and IMF today, is infrastructure. That means water management; in many parts of the world that is crucial, and in many regions it is crucial. Secondly, the generation and distribution of sources of power. This means in some degree hydroelectric power, though hydroelectric should be used mainly for water management, rather than power. Power generation must be subordinated to water management requirements. Therefore, hydroelectric is not necessarily a good source of power, because you cannot always use that potential power at the time you need the power and also fulfill water management requirements.

The alternative to hydroelectric power is nuclear power at present, and in the future, fusion power. But this means nuclear power development at a rapid rate. You have two economies in South America which are crucial for the development of nuclear power; one is Argentina, the other is Brazil. Cooperation between Argentina and Brazil as the vehicle for nuclear power in the region is crucial. But other power sources, of course, must be developed, while the emphasis is on nuclear power, at least for the present time.

This means the development of general transportation, especially rail. We have at present methods of magnetic levitation, which are being developed into a finished form by MBB in West Germany. This technology should be gener-

alized. South America is a vast region, we need transportation over a vast region. This is one of the greatest opportunities for the development of high-speed rail systems, including passenger rail systems with potential speeds of 400-500 km per hour. This is a real solution to some of our problems.

We require an improved communications grid, though that is less of a priority than transportation, power, and water management systems.

The point to be emphasized is that the degree to which clean water is available per square kilometer, the degree to which power is available for consumption per capita and per square kilometer, the degree to which efficient general transportation, especially of goods, is available per square kilometer and per capita—is the degree to which the preconditions for successful economic development, the preconditions for the development of productivity, are met. Therefore, long-term investment in the maintenance and improvement of basic economic infrastructure, these categories, plus education and medical facilities, these are the preconditions for successful agricultural and manufacturing development. We have to have a balanced program of this type.

The point is also that the state is the agency which is responsible for basic economic development. That is the principle upon which the federal Constitution of the United States was premised. One of the key weaknesses of the American Confederation prior to 1787 and 1789, was that as long as you had privatization and only local and state development of basic economic infrastructure, you had chaos in those United States, to the point that the nation as a whole was about to disintegrate. Washington and others recognized that national public works under the direction of the federal government, were necessary to the security as well as the economic development of the nation. This meant, as I've indicated, the development of water management systems, the generation and distribution of power, the development of general transportation, then roads and canals, later railroads, and of course, communications, as was understood by Alexander Spotswood, Benjamin Franklin, and others in developing the postal service. These are the essentials of commerce.

The national government, together with state and local governments, is responsible for economic infrastructure either as government public works or as government-regulated private utilities.

Those kinds of measures, and steps to implement them, taken within the first 72 hours of an emergency, by a national government, would mean a successful process of transition was under way, out of the cannibalistic chaos into which the crumbling IMF system is pushing the world, and into a sane world of economic recovery, based on sound principles of physical economy. It would mean a junking, once and forever, of the so-called dogmas of socialism and free enterprise, and a return to the American System of political-economy.