Central bank system cracks; new monetary system urgent

by Chris White

What is still called the Great Depression of the 1930s was ushered in during the month of September 1931, when the British government removed the pound sterling from the gold standard. The events of Sept. 16, 1992 will similarly go down in the history books. The British will similarly be said to have plunged the world into the Great Depression of the 1990s, when they pulled the pound out of the European Monetary System's Exchange Rate Mechanism (ERM).

In the United States, we still find wishful thinking: It's only a European crisis; it won't have direct effects on the U.S.; it may even result in a stronger dollar, as the collapse of the European Monetary System forces Germany's Bundesbank to lower interest rates, reducing differentials with the United States. Wishful thinking taken to this degree is fairly called psychosis.

This pattern was reflected as the world monetary system unraveled. Over the weekend of Sept. 12-13, emergency meetings of European financial and monetary officials agreed that Germany's interest rates would be adjusted downwards, and that bankrupt Italy's bankrupt lira would be devalued 7% within the ERM. These developments were greeted on Monday Sept. 14 with euphoria in the United States, as signaling the vindication of so-called U.S. policy. The stock market rose 75 points. By the next day, it had become obvious that the lira could not be held at its new level, and that the British pound and Spanish peseta were in big trouble. U.S. commentators began to express second thoughts about the weekend's developments. The stock market fell by nearly 50 points.

On Sept. 16, the British government increased its interest rates, first by 2%, to 12%, in an attempt to stem their currency's slide, then later in the day by another 3%. Neither worked. By the end of the day, the pound had been pulled from the ERM, and, in free float, was trading 12 pfennigs lower against the German mark than its official DM 2.78 floor. That evening, a crisis meeting of European officials ratified the suspension of the pound and the Italian lira from the Exchange Rate Mechanism, and devalued Spain's peseta against the deutschemark. Sweden, meanwhile, raised its overnight interest rates to 500% to prohibit capital flight out of the country. This was all seen as potentially good for the dollar.

Scrambling for the lifeboats

Now we head into another round of emergency meetings among Group of Seven and other European officials gathered in Washington, D.C. the weekend of Sept. 19-20, for the annual meeting of the International Monetary Fund. Rescue packages and currency realignments are supposed to be the order of the day. The French, for their part, will decide in a referendum on Sept. 20 whether to support the Maastricht project for the political and monetary union of Europe. This was a vote whose negative outcome was supposed to have been the precursor to the chaos which has already erupted. The U.S. pundits are still insisting that, come what may, no matter how the French vote, it's going to be good for the dollar.

They seem to have forgotten that a monetary system is not simply an aggregation of individual currencies freely competing against each other for market approval, like contestants in some other-worldly beauty competition. The resources did not exist to defend the system as a whole in the way it has been organized. The system could no longer defend itself, and the system collapsed. No amount of emergency meetings, realignments, or anything else, will put this Humpty Dumpty back together again.

There is, supposedly, some $350 billion sloshing around out there, in computer memory storage, credited and debited electronically in foreign exchange transactions every single day that markets are open around the world. London alone accounts for about one-third of the whole. From reports, more than $100 billion of that "money" was being thrown against target currencies every day, as the crisis developed, in the hunt for "profits" which would materialize out of the ether, as devaluations were forced.

What has happened is thatthe central banks which encouraged the creation of that electronic monster, in the name of "deregulation," "magic of the marketplace," "creative financing," and the other slogans of the degenerate 1980s, especially over the period since Paul Volcker took over the Federal Reserve in 1978, have finally been devoured by the monster that they themselves created. These were the institutions that encouraged the growth of "offshore," stateless Euro-market monies, especially in the period from 1967 to 1971. They fostered that growth through the years of the petrodollar, and then, after 1978-82, with the narco-dollar. They permitted offshore criminal funds to be used to drive out good money, as economies and employment were dismantled in favor of what they called the "post-industrial" society.

And now, their flunkies insist that what has happened will be good for the dollar, no matter what. Leaving aside the criminal roots of much of the dollar funds around the world, ask someone who exports goods to the United States what can be done with the dollars so earned these days. What does the U.S. produce, which one might purchase with the dollars earned? Where inside the U.S. could those dollars be invested? In a bank, like Citibank? In the stock market? In real estate or other tangible property? In government debt? What fools they all are to say the dollar will benefit from the current chaos! No matter how many trillions of dollars there are stashed in accounts from the Cayman Islands and Bahamas, through the Channel Islands and Luxembourg to Bahrain and Hong Kong, they are about as valuable as the pound sterling has become.

LaRouche's proposals

There's one American with a proven track record on these matters, proven especially in his forecasts of developments during the period of Paul Volcker's high interest rate dictatorship from 1979 though 1982, and again in his forecasts of coming stock market catastrophes in the spring of 1987 and the summer of 1989. He is Lyndon LaRouche, the framed-up political prisoner of George Bush and company, now running for the presidency from jail in Rochester, Minnesota. In a campaign statement dated Sept. 17, LaRouche pointed to two features of what had happened the day before:

"First" he reported, "the central banking system that has run the world, and whose chief representative officially today is the International Monetary Fund, has failed. It has collapsed. That monetary system has destroyed itself with its own policies.

"Secondly, the world is in much worse condition, and in a much deeper depression today, than in 1931, because of the influence of 25 years of 'post-industrial' thinking, combined with the wild monetarism and deregulation that the world associates today with a decade of greed—the decade of Margaret Thatcher, Milton Friedman, and similar dangerous lunatics.

"The only chance now is to follow the course that I have repeatedly proposed—especially those policies that I have proposed since 1980. Unless the policies that I have proposed are adopted, the United States and the rest of the world will now plunge rapidly into a bottomless, accelerated collapse of unemployment and who knows what else."

What LaRouche has proposed, in such forms as the "Operation Juárez" program for monetary and debt reorganization in the Americas, and in his 1984 and 1988 election campaigns, amounts to the re-invention of money, as a return to "hard money" policies, against those associated with usury and speculation and the policy of money breeding money.

He put it this way in his Sept. 17 statement:

"What must be done is what I have proposed: Nationalize central banking to create national banks. Restore protectionism—the American System protectionism. Issue government currency as credit; do not use public debt, use Hamiltonian public credit. Issue this credit at low prices through national banks in what is called a dirigist fashion, selectively. All new currency in the United States will come from one source, and only one source: the U.S. government treasury, in the form of currency notes issued as credit. These notes will be loaned at very low interest rates to public projects primarily, state and federal infrastructure projects, as I have indicated, for the purpose of creating immediately approximately 8 million new jobs in the public and private sectors. No service jobs—none of that garbage; back to basics. Back to physical wealth. Back to an industrial society. Not one penny will be issued except to foster these physical-wealth-creating projects, and private industries for support.

"That, in the United States, will start a recovery. The same thing is true in every other part of the world. However, to so establish national banking means to end the power of those who control central banking systems. It means to end the power of those evil forces which control Mr. Camdessus's International Monetary Fund today. This is a political fight between the vital interests of the American and other peoples, and my enemies."

This phase of the crisis began in the immediate aftermath of the summit meeting of the Group of Seven. Their unified idiotic assurances that all was well with the world, everything was under control, and everyone on the road to recovery, only proved that there was a complete and utter breakdown of leadership in the world. Their inanity collapsed the dollar. Political leaders discredited, it is now the turn of the so-called monetary authorities. Within those G-7 countries, LaRouche's voice alone has said what should be done. The recent events in Europe show that there is only his way, or the road to ruin, and no middle ground.