

Original: <http://larouchepac.com/news/2008/11/12/if-we-dont-make-kind-reform-now.html> 2008-11-26

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If We Don't Make This Kind of Reform NOW....

If We Don't Make THIS kind of Reform NOW, We are Not Going to Have a Decent Planet to Live on

Lyndon LaRouche made the following remarks to a private meeting in Washington, D.C., on Nov. 11, 2008. The transcript has been edited, and subheads added. [An introduction](#) to this discussion is also available.

As you know, probably, as of last July, I forecast that we were at the end of a phase of the system. And within three days, after my forecast, on July 25 of last year, the breakup of the present monetary system began, with what was called by some people who didn't know any better, a "subprime crisis." It was never a subprime crisis: The idea that a real estate bubble exploded and had a chain-reaction on the world is nonsense. That didn't happen: It happened the other way around.

The system which was to explode, or implode, just broke loose at its weakest point. But the problem lies, today, not in the real estate area or otherwise; it lies in financial derivatives. The financial derivatives system of the world is what is in the process of collapsing. And the financial derivatives system totals to over \$1 quadrillion U.S. dollars in estimated value! And this is the great speculative bubble which has built up from 1987 on, under Alan Greenspan and others. This is the bubble that is now collapsing.

This is a hopeless collapse, in terms of the present system. *No mere reform of this present system, will save the planet.* The nearest event comparable to this, in all European civilization's experience, occurred in the 14th Century, with the general collapse, called a "New Dark Age," in which the entire system of Europe collapsed. The number of villages collapsed by one-half, the population of Europe collapsed by one-third, and it took several decades before even the beginning of civilization returned.

The crisis we have today, worldwide, is of a similar form: A great financial bubble, which has been growing at a great rate, while the rate of net physical production per capita, has been collapsing. This system is doomed in its present form. And there is no minor reform, there's no monetary reform that could save this system. We are headed for an *absolute, total collapse of the planet, unless a change is made.* There is no hope, for any remedy, within the framework of what's called a monetary system. But rather, as I shall emphasize here, the alternative is the establishment of a credit system, to replace the present monetary system.

The Crucial Role of the United States

Now, the model for the credit system lies in the United States, historically. If you study the U.S. Constitution and the peculiarities of the U.S. Constitution, as opposed to those of Europe, our system of government has no resemblance in essentials, to any European system of government. European systems of government are essentially parliamentary systems, not federal systems. There are reforms in European states, which have moved in the direction of a Presidential system. The best example of an attempt in that direction was Charles de Gaulle, as President of France, in his Fifth Republic. There was a serious attempt to establish a nation-state system in Europe, by de Gaulle. But since that time, there has been no successful effort, to establish a true nation-state system, as opposed to a parliamentary system.

Therefore, the United States has a crucial significance in this, and without a crucial role by the United States, which seems extremely difficult right now, because of the present Presidency and so forth—without the United States, there is no hope for avoiding what will be a plunge into a new dark age, resembling that which occurred in Europe, which occurred in the 14th Century. That's the situation we face. No simple reform, no adjustment, no monetary agreement, nothing of that sort will work.

There are, however, very specific measures, of agreements among governments which could change the system, could change it without anything too radical, but it would get us through.

Now, the first thing that has to happen is, in practice, is that unless there's an agreement of a certain type among the United States, Russia, China, and India, we have reached a condition, where it would be *impossible to save the world from a collapse*, a worldwide collapse. The form would be this: It would be the change of the present world monetary system, the elimination of the present world monetary system, to replace it by a credit system, which is consistent with the principles of the U.S. Federal Constitution. Remember that our Constitution, and our Presidential system, was not based on a parliamentary system; it was not based on a monetary system. It was based on what's called a credit system.

The difference is obvious to all of you: You have two types of systems in the world today, of any significance. One, there are credit systems: A credit means that the money issued by a government, is issued *by* a government, in the name of the government, and is backed by the promises of the government to support the credit. This credit, under law, can then be monetized and supply a money currency as well as credit for development.

This is distinct from a monetary system. A monetary system represents a system of money, which is *outside government*, but which may or may not have agreement *with* government. European systems, today, are not credit systems, they are monetary systems. The monetary system, which is tied to the IMF, today, and has been since 1971, 1972—that period—the monetary system is what is collapsing. The monetary system is collapsing, because it is tied, specifically now to the credit bubble, the derivatives bubbles. And this is what's collapsing. There's no possibility at this stage any longer, of saving the monetary system in its present form. That is, a reform made internal to the monetary system will not work. It's too late. We could have done something in that direction, back a year ago, July a year ago, back in 2007. The system is so rotten today, that it would not be possible, especially the changes that have been made by the U.S. and other governments, in the recent months, are so radical, that it would be impossible to reform this system. You have to completely overhaul it and revolutionize it.

But, our American System allows us to do that, under our Constitutional system in our history.

A Four-Power Agreement

Now, what we have to do is, establish a power bloc, to force through a change among nations. Western Europe, despite the fact that there are positive elements, as the case of [Economics Minister Giulio] Tremonti in Italy, or some efforts on the part of [President Nicolas] Sarkozy in France; there are some initiatives in the direction of useful reforms. There are desires for useful reforms from other parts of the world. But the requirement here, is to have a sufficiently powerful agreement, *to force through* the reforms in a timely fashion. This can only occur by an agreement among the United States, Russia, China, and India. If the United States, Russia, China, and India function as a bloc, other countries will join them, and we can force through the reform. In my view, without that particular agreement, it would be impossible to ram through the reform, politically, at this time—not in time. We might eventually agree to it, but it would be too late. We need change now: The world system is collapsing at such a rate, now, that we do not have years to play with. We do not even have many months to play with. By the end of the year, we must be in the direction of making some kind of reform, in this direction.

Now, what it means, is this: As those of you from China know, and other countries, the change in the system, especially since 1971 and 1972 on, the change was a change in the relationship of China, from the United States to China and other countries. The change was essentially to what is called "globalization": to move production out of Europe and the United States, and to move it into countries which have low per-capita incomes: in other words, cheap labor. And thus production, and infrastructure, were moved *out* of the United States, and increasingly *out* of Europe, especially after 1989-1990, into other countries, Third World countries in particular, which operate at a cheap-labor price. Today, most of the production of the world depends critically, on a margin of production in these countries, which are the export countries, which replaced European production, U.S. production, and so forth.

So therefore, at this point, you have two things: First of all, the system is collapsing. Now, by the nature of the system, it means that the countries which were used as substitutes for production from Europe and the United States, for example, are now collapsing, because the purchases from other countries are collapsing, as in the case of China, where the collapse of China is a potential time-bomb for the entire planet. Because if the collapse of China's exports continues at the present rate, this will be a time-bomb for the entire system; and some people understand this. Therefore, the unity of four powers, the United States—which has a certain special power—Russia, China, and India, represents a bloc that can force through reforms of the type that are needed.

A Credit, Not a Monetary System

What is required is this: We have to eliminate the monetary system, by a credit system. A credit system is not some mysterious thing. It's essentially something which is traditional to the United States in particular. European systems today, are monetary systems: that is, despite agreements with government, money is controlled by agencies outside government. This is a characteristic of parliamentary systems—not a true Presidential system, but a parliamentary system. And thus, money exists *independently* of the control of government, although with agreement with government, but nonetheless, under the control of outside agencies: international, financial agencies, which actually control the monetary system, control and regulate the money, and government plays, less and less, a role in the control of money, in control of the monetary system. This is characteristic in Europe, particularly since 1989-1991, in which the control over money, with the Maastricht agreements and similar kinds of agreements, Europe has absolutely no control over its own monetary supply: It's controlled by outsiders, largely through London, and through things like the oil price market.

So therefore, the creation of a credit system to replace a monetary system, is where the solution lies. There's no way to save this monetary system in its present form. It's so full of junk, with the financial derivatives far in excess of a quadrillion dollars in claims, against the nominal size of the actual production of nations, it is impossible to reform this monetary system in its present form. You have to put the monetary system, itself, *through bankruptcy*. You will have to wipe out the greatest portion of nominal monetary assets in the world today! Cancel them! Because the system as a whole is hopelessly bankrupt.

Now, what do you do in that case? Well, what you do for a monetary reform to a credit system, you use the U.S. Constitution. Because of our Constitution, we can create, as Roosevelt did that formally, we can create a credit system. To replace a monetary system.

Now, what you do under this case, and with agreement with the United States, and its Constitution, with Russia, China, and India, it can be done. What you do, is you say, we put all the claims which are equivalent of monetary or credit claims in two piles. One pile we call "monetary." That's the manure pile. The other we call the "credit" pile. Now under the U.S. Constitution, money, when the Constitution is followed, is created only by the will of the government. It is done by the Executive branch of government, with the consent of the House of Representatives, and things flow from that. This credit being issued, is also authorized for monetization: So, the credit can be issued as loans for projects, or international loans, and part of it can actually be monetized, under the condition under which it was uttered. Particularly, if we had a national banking system, which we don't have presently, we could convert the Federal Reserve System, which is bankrupt, into a national banking system, as Hamilton proposed. Then it would do that, automatically. We *do* need a national banking system in each country. That doesn't mean they're the only banks, but it does mean you use a national banking system to control the relationship between government and the banking system as a whole, in general.

Put the System Through Bankruptcy Reorganization

If you do that, then you do a bankruptcy reform: You take the hopelessly bankrupt system—we're talking about *quadrillions of dollars of claims*, of monetary claims, especially as located in these speculative markets of derivatives and related kinds of things—we have to wipe most of this off the books! It can never be paid. It was foolishness, it was a lie, it was done largely since 1987, under Alan Greenspan's insanity. This we have to wipe out.

What do you do? You have to protect those things which are productive, and are necessary for the government and necessary for the population. Therefore, you create a pile called the "credit pile." What you do, is you take every obligation, and every asset, which is valuable to society, currently, or necessary and meritorious—you take the monetary value of that, and you assign that to the creation of credit, government credit, a credit system. *And you leave the remainder to rot.*

Then, at that point, you enter into agreements, with governments—and this is where the relationship of the United States, Russia, China, and India occurs; there are many ramifications to this thing—under the case, what we do first of all, is you create among these governments, and others who will join them, you create a credit system to replace the present monetary system. That doesn't mean that every nation is involved immediately; it means these nations and others who wish to join, will join immediately. Now, we enter into an agreement which amounts to a revival of the Bretton Woods system. What we do, therefore, is, we create a credit system, as an international system, as a *fixed-exchange-rate system*. And we issue credit, by agreement among these countries, as a fixed-exchange-rate system. We then proceed, to expand world production, involving these countries, *through* the new credit system, leaving the useless money, the useless claims, to rot.

In doing that, two things happen, particularly with these countries involved, because the future of the planet, economically, is concentrated in Asia, where the greatest single concentration of population and the need for growth exists. The other area, which has a similar character, is Africa. Now, Asia and Africa are also two areas, which contain a lot of the raw materials assets required for the development of production in the world.

Therefore, if this part of the world develops, several things happen: First of all, you have in China, and you have in India, and other countries in Asia, you have a tendency where 60-70% of the population is essentially destitute, because of the present structure of prices, prices paid. A small part of the population of these countries, varying from case to case, has, shall we say, a modern standard of living, a modern ability to produce. A great part of the population remains outside! While there's infrastructure development in China, it is not sufficient to compensate, for example, for these needs. The development of resources for developing raw materials, that is, mineral raw materials, is not sufficient. The raw materials, the minerals, lie there in the ground, but you just can't extract them, you have to develop these resources. And you have to mobilize the flow of this into the expansion of production to include that: India, China, are typical of this—but also all of Asia.

You have a parallel situation in Africa. Africa is one of the larger repositories of raw materials, necessary for humanity in the coming period. But under the present conditions, with the lack of infrastructure, you can not develop those raw materials! So therefore, what you have, is a part of the world, over 40% of the world in Asia, essentially, and a large part in Africa, and you have comparable situations in South America, where you have large resources, which are undeveloped, which could be developed, but the infrastructure development needed, has not occurred yet.

The Challenge of Development

So therefore, we have not only the question of a reform of a monetary system, to prevent a collapse of the system; we have the challenge now, of taking these areas of development, which involve large raw materials deposits, at the same time, a very large part of the population—and a large part of the population of the world is living at substandard conditions, with no immediate prospect of significant improvement—therefore, the frontier of humanity, for centuries yet to come, involves this thrust of development. It means, then, a *reversal* of the present tendencies in Europe and in North America, away from becoming post-industrial societies, toward playing a key supporting role in freshly generating technologies which will support this development in Asia and in Africa, and also similarly, in South America. But South America's much closer to the United States, and so forth, has largely a European cultural population, and therefore, dealing with that is much different than it is in dealing with other parts of the world which have a different cultural heritage.

So therefore, there are two things involved: First of all, is to mobilize a section of the planet, which can be mobilized, which *has* to be mobilized—Russia knows it needs to mobilize! Russia is facing an existential crisis, not as severe as China's right now, but it's an existential crisis. They can not simply continue to function the way they're going. Changes are required. China knows that a change is required, from the present situation. India is less unstable in some respects than China, because its characteristics are different, but all of Asia is in this condition. Africa's in a *known* condition. The problem in South America, even though it's a different part of the world, and has different characteristics, is similar.

So therefore, we have to think not merely about a monetary reform, or a credit reform: We have to think of a credit reform in terms of a mission-orientation, of a system of sovereign nation-states, globally, for an extended period to come. Automatically, in this kind of process, if you have this agreement of the type I've indicated, among the four leading nations, and those who join them immediately, you will go immediately to a gold-denominated, fixed-exchange-rate system. So you will begin to operate in one part of the world, even if the rest of the world has not yet joined; you'll be operating under treaty agreements, among a bloc of nations, a powerful bloc of nations in these terms. And you're moving back in the direction we have to get, to solve these problems: a fixed-exchange-rate system.

What we would do, *probably*, and I would do in the United States, if I had my druthers, is take the Federal Reserve System, which is now bankrupt; the Federal Reserve System is hopelessly bankrupt. I say it: It's true. Merely, the axe has not the head off, yet, but it's gone! What you have to do, is put *it* through bankruptcy reorganization. Now, since it has a Federal government relationship, which the Federal government has to deal with, you simply do what Alexander Hamilton would have done, and intended to do, had he had his choices, despite Andrew Jackson—and convert the Federal Reserve System, as a set of assets, and use the power of government by an Act of Congress, and the Executive branch, to convert it into a National Bank. That does not mean it's the bank that controls everything in the banking system. You are going to restore the private banks, the state banks, and the Federal banks, the chartered banks. But you need a vehicle interfacing between government and the Treasury Department, and the private part of the banking system, to mediate the handling of long-term agreements, and the handling of other things which are done on behalf of *both* government interest and on the part of the institutions.

So, if we create this seed crystal, of these four nations, and others who join them, we now can have, any time we decide to do it—if the President of the United States says, to the President of Russia and to the President of China, and to the government of India, and some other countries: "Let's make this agreement!", the United States has Constitutionally, the Constitutional apparatus and the authority, to do this! So we don't have to worry about what somebody in England says, or some other part of the world says—if these countries agree, on a certain mission-orientation, to act now, we can start a process toward a recovery of the planet as a whole. And once we start that process, we then can go on to the major business of getting other parts of the world involved in it. But we need to make a break.

The American Presidential System

Now, we have, of course, a new President-elect of the United States, and provided he lives—I understand there are some threats to his life—the prospects don't seem good on the surface from his behavior, but if forces like that combine, the way the American Presidential system works, the President of the United States will be *shaped* by the approach to such an agreement. Sometimes a President determines the way the U.S. government goes, sometimes he does not. Sometimes he dominates, in a bad way. Sometimes he dominates in a good way. But our system is not a system of a President; it is a *Presidential system*, in which the entirety of the Federal government is essentially a Presidential system in its character. And the other branches of government are essentially auxiliary to our control-mechanism, which determine and shape the Presidency.

But if the United States Presidency decides to move in that direction, the forces of the Presidency can control the President of the United States. And therefore, the President of the United States will be inclined and steered

to do useful things, for the sake of the United States and for its allies. So that's what's required.

If we do that, then we can deal with other parts of the world, which eagerly join. The problem now, is the attempt to pick off one country at a time, to agree with this—the kind of negotiations that are occurring between London and Sarkozy of France, is completely hopeless! Nothing good can come out of this! It's absolutely useless. And the results we'll see, in the coming meeting [the Nov. 15 G-20 meeting—ed.], will be terrible results. They'll be inconsequential; it'll be chaotic. *No solution will be presented!* Something may be presented and called a "solution." But, calling a pig a person does not make it human. This will not work.

Nothing presently planned, by the coming meeting, will do any damned good, at all—but will only make things worse. Only a reform of the type I've described, is within sight as a feasible change in the system.

What I've said, also implies that we would go away from a floating-exchange-rate system, not only to a gold-reserve system, or a regulated system of the type that Roosevelt prescribed in 1944, as opposed to what Truman did after 1945: What Truman did, what was done under Truman, was not Roosevelt's intention. Remember, that Franklin Roosevelt's intention was to eliminate all imperialism, to get rid of colonialism, and to use the vast economic power we had assembled in the war, to build up other countries, through a partnership to eliminate colonialism, and to establish a system of nation-states on this planet.

Truman was different: Truman was actually an enemy, a political enemy of Franklin Roosevelt. He belonged to a different faction, an opposing faction. Roosevelt died. Truman took over—in a sense, Winston Churchill took over. And if President Roosevelt, who had intended to *eliminate* colonialism throughout the planet, through a process of development, was replaced by a President who cooperated with the British to *restore colonialism*—as in the case in Indochina, as in the case in Indonesia, and so forth and so on, around the planet.

So what happened under Truman, was *not* the actual intention of Roosevelt. If we go back to 1944, at Bretton Woods—against Keynes! Keynes was a fascist and an imperialist! That's frankly what he was; his famous 1937 *General Theory*, published in Berlin, in which he said his system would work better in Nazi Germany than it would in a free country. He was right. The Keynesian system was adapted to a colonial/imperial system, and we functioned under a monetarist system, with imperialistic characteristics, especially since 1971 to the present time: It's been one of our big problems.

So, going back to the *Roosevelt* intention, of 1944-early 1945, with a reform of this type, does give us an answer. This means that we have to have a fixed-exchange-rate system; we have to have a hard-currency system; it means we have to have a lot of regulation of prices. You can not have free, floating prices. Because, if you're not covering the costs of production, by undercutting prices, so that you try to produce below the cost of production, you're not going to have development.

The World Needs Infrastructure

This also means, that this will not work without a very large-scale investment in basic economic infrastructure. For example: Take the case of Asia, North Asia.

North Asia is a repository, part of Russia, but North Asia in general; the Siberian area and below, is a repository of concentration of raw materials which are necessary for the development of Asia as a whole. But you just can't go in there, and get those raw materials; you have to have a system of development, which develops the territory in which the raw materials lie. You can't just go down and dig them out. You have to have a system, and Russia used to have a system of that type, under the old Russian system, in infrastructure, in minerals. And therefore, to develop this area, you require large-scale, modern transportation systems; you need power systems, which means nuclear power systems, and so forth; otherwise you can not develop these territories. This means developing magnetic levitation systems in place of rail systems, restoring rail systems where they fit the bill, and all other kinds of infrastructural development which are necessary for high-technology investment and production. Without that, we can not accomplish our mission.

Therefore, we have to have very large-scale international agreements on creation of credit, for large-scale infrastructure projects, of especially international interest. You can do nothing in Africa, without a large investment in basic economic infrastructure: mass transportation, power, water management, and so forth. These countries, given freedom—true freedom—could tend to develop themselves. *But!* Without large-scale infrastructure, which they're not equipped to develop, they couldn't launch that kind of development.

This means, also, the world itself, at large, requires a return to large-scale rail or magnetic levitation transportation systems, which we've been destroying in the post-war period. It means other kinds of development of that type.

It means also, a new tariff system, a protectionist system, which guarantees to each nation, that its investment in production, which everybody has supported, presumably, is going to be protected in price. We can not have a low-price economy. The problem in China, for example, is, the prices at which China is able to have an export market, the prices are too low! You can not maintain China's population with those prices. And the reason this was done, was to lower the price of production below the *cost* of production! So we moved production *out* of Europe, and out of North America, we moved it to prices *below the actual, physical cost of production*, considering the capital investment in technology. Therefore, you take and dump on China and other countries, you dump an export market for them, but then you don't allow them to earn enough to support their entire population in development. The same thing happens in Africa. The same thing has happened in South America and Central America, in recent periods, mainly since the 1970s.

So we need these kinds of reforms, now! And that's the direction we have to go in. That's the option.

Billions Are Already Imperiled

If we're not willing to move in the direction I've indicated here, in these remarks so far, today, then, I tell you, that the situation for humanity on the planet as a whole is worse today, than it was in Europe in the 14th Century, in the onset of what was called the New Dark Age. We have over 6.5 billion people living on this planet today. With the present conditions, much of that population is already imperiled: the question of food supplies, alone, problems of disease and related things; the food crisis is grave on this planet, today, as many of us know: Without an increase in productivity, *physical productivity*, which means a change in these conditions, and the introduction of protectionist conditions, we're going to have a holocaust. We now have between 6.5 and 7 billion people on this planet: If we don't do something now, we're going to end up, in a couple of generations, with about 1 billion, or less.

So, we have an existential crisis on this planet. The present monetary system, the present systems, especially since 1968-71/72, the *net physical output of the United States, since 1968*, since the fiscal year of '67-'68—the net physical output per capita of the United States *has been continually shrinking!* *There has been no net physical growth, per capita, per square kilometer, in the United States since fiscal year '67-'68.*

You have a similar condition, but a worse condition, in Europe today, especially in Germany: In Germany, the most obvious collapse has occurred.

So, if these reforms are not made, with the goal of a protectionist system, which ensures that long-term investment is promoted and encouraged, and technological progress and the investment that goes with it, is encouraged, *we are headed—right now—for a new dark age!* Not some time down the line. What has happened, at an accelerating rate, since the end of July of 2007, has already been a run into a crisis.

One of the problems here, is that every economist who engages in forecasting has failed, in this entire period. They failed in the long term, but they've also failed, in particular in the past year and a half. Every economist in the world, that I know of, has been generally incompetent in forecasting, during this period. Incompetent, particularly—you have people who are publishing reports to the effect that this crisis will soon be over. It will never be over! Without this reform I've indicated, it will never be over! Life on this planet is headed for a dark age, unless the kind of reforms I've indicated occur now. *There is no other solution.* And any forecaster who says differently, you know is incompetent.

And that's why I say—I return to it—the key to a reform, as I see it today: There's no possibility of a necessary reform, unless you reach agreement of the United States, Russia, China, and India. If those countries agree on the general directions I indicate, and are prepared to act in that direction, other nations will join them—obviously, Japan will join them, automatically! Korea will automatically join them! Other countries will immediately join them, because they're part of the same system, the East Asian system. That whole area of East Asia, Northern Siberia, the area around Korea, the same thing—these are areas that have *immediate* potential for very significant development! And these countries, given the chance, will leap to that, and take advantage of that.

But without that kind of reform, without that orientation, without agreements where we can create large masses of *new credit*—that is, under a credit system, while junking the old monetary system—if we can't do that, there's no chance for humanity at all. And anyone who forecasts differently is *wrong, and dangerously wrong.*

If we don't make this kind of reform now, we're not going to have a decent planet to live on for some time to come.

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