Shall nations employ exchange controls?

by Lyndon H. LaRouche, Jr.

The June 9 declaration by the Open Market Committee of the Federal Reserve System leaves nations wishing to avoid the looming new depression no alternative but to institute exchange controls.

Exchange controls are restrictions imposed upon a nation's financial institutions and customs agencies, regulating the flow of financial capital into and out of the national economy. These measures have been employed by Switzerland, by Britain, and with less efficiency by Italy. Any objection to such measures by the International Monetary Fund, World Bank, or Bank for International Settlements (a Swiss private banking institution), would therefore be discriminatory and capricious, objections which any nation must reject as unacceptable on grounds of its own national sovereignty.

The Federal Reserve's announced decision was that U.S. rates will continue within a band of between 19 percent and 21 percent for at least the coming two months. If we could presume that the Governors of the Fed are honest patriots, which we cannot, we would describe their actions as those of bungling, ideology-ridden fools. Two more months of U.S. interest rates based at the 19 to 21 percent level, mean a monetary collapse of the United States threatening to set off a general depression throughout the world.

Therefore, nations which choose not to join Paul A. Volcker's pack of Friedmanite lemmings over the cliff are obliged to take virtual economic-warfare measures to defend their nations from the consequences of Federal Reserve System madness. The combination of measures required include resort to exchange controls.

The principal function of exchange controls under present circumstances is to permit nations to provide credit at lower borrowing costs, probably between 6 and 8 percent, for essential domestic borrowing, but to ensure that funds borrowed in this way do not flow out, directly or indirectly, to high-priced money markets such as those of London or New York City.

Granted, such procedures incur bureaucratic measures. It requires that no money transfers can leave a nation in excess of small personal amounts except that that transfer bears a number identifying a license for such transfer or a coded number indicating an import license. It requires that all incoming deposits be registered and controlled in such a way as to prevent the use of transactions for speculative manipulations of the nation's credit capacities and currency-exchange values. To make such controls efficient, various degrees of painful penalties, including substantial presumptive prison sentences and fines are imposed for violators, including officials of financial institutions participating in unlawful transactions.

There is no other choice. Bureaucratic, painful, "repressive," or not, such measures are demanded under the conditions created by the madmen of the Fed.

It also means controls over import licensing, to prevent importers from incurring excess external payments obligations. This is ugly and bureaucratic, but nations threatened with depression have no choice but to defend their economies and their citizens' welfare by such measures. Every nation-state has an inviolable sovereign right to do so, just as the United States maintains strict export licensing of categories of goods.

Alternative sources of credit

Granted, exchange controls are not the entire solution by themselves. To maintain two-tier credit systems, as a defense against the insanity of London and Manhattan, a nation must resort to national banking as the means for ensuring an adequate supply of low-cost credit for its economy.

The treasury and a national bank must generate a series of currency-notes which are distributed only through secured loans for goods-producing capital investments. That is, such notes should not be distributed through state deficits for bureaucracy, services, and social-welfare expenditures by the state. These should be distributed chiefly through participation in capital-goods investments and other goods-producing capital improvements, by way of loans issued by local private banking institutions. In exceptional cases, the loans may be made directly through national-banking institutions.

The basis for such credit issuance is twofold.

In the final analysis, the advance of credit for a capital improvement in goods-producing capacities is secured by the increased wealth, in the form of produced goods, accomplished with aid of that improvement in capacity.

The potential credit of a national economy internally is the mass of idle capacity and labor which can be employed to produce new goods only through the addition of such credit.

In general, lending should be limited to cases in which increased capital-intensity of capital improvements will result in increased per capital productivity, as well as increased total output of goods for the national economy.

The thrust of lending policy must be to increase the proportion of the national labor-force productively employed in producing agricultural and industrial goods, while reducing the ratio of the labor-intensive services and commercial activities. At the same time, the effect of lending must be to increase the average productivity in each sector benefiting from such credit.

The other feature of such credit creation is monetary. We must keep the monetary processes from becoming disorderly during the period we are waiting for the economic benefits of credit expansion for goods production to be realized. The obvious instrument of national banking for accomplishing this is to put the nation on a gold-reserve basis, at a competitive price for gold of U.S. $500 or market, whichever is higher.

It is true that the market price of gold has been driven below $500. This, however, is a rigged market. Speculators, informed of the actual policies of London and Switzerland, have taken advantage of the squeezing of major commercial banks and others who were formerly major gold buyers to drive the market down, so that the speculators might quietly buy up gold stocks at an artificially reduced price. Once the crash hits, the price of gold is intended to zoom upward, resulting in a titanic financial profit on speculation for those who have been operating on the basis of "insider's knowledge" of the swindle being conducted.

By adopting a gold-reserve policy, and by restricting settlement of balances in gold to nations which enter into the same monetary system, a nation can issue its national-banking currency notes with gold-reserve backing.

Italy and Germany

At present, Italy and Germany, as well as a number of developing nations, are being forced to nationalize their central banking, and to use exchange controls as a temporary defense of their economies against the madness of London and Manhattan.

At the moment, Federal Reserve Chairman Paul A. Volcker should be viewed as a reincarnation of Benedict Arnold and Aaron Burr combined. He is an instrument of the policy of London. London's policy is to cause a deflationary collapse of both the United States and continental Europe. The Federal Republic of Germany is being targeted for an almost immediate collapse of its industry and commercial banking system by London.

This is to be aided by the treasonous proposal supported by Rep. Jack Kemp, to create so-called free-enterprise Sodom and Gomorrahs in cities such as New York. That arrangement turns those sections of the United States into "Hong Kong Wests," a resemblance not irrelevant to HongShang's takeover of New York's Marine Midland and de facto takeover of Chase Manhattan Bank. Coolie labor and drugs, together with the unnatural delights of Sodom and Gomorrah, are to be the outstanding features of these "zones."

Apart from such bestiality, the "zones" will function as a conduit for takeover of the U.S. banking system by unregulated, "offshore" financial institutions of Canada, the British West Indies, Hong Kong and Singapore. With the internal deflationary collapse of the United States, London, the coordinating center, together with the Bank for International Settlements, of the world's offshore, unregulated financial institutions, will loot the United States and continental Europe. By such a grand swindle, London intends that the pile of worthless wreckage called Britain, will skim sufficient profit from the United States and other parts of the world that the British pound will replace the tattered U.S. dollar as the world's ruling reserve currency.

Therefore, any nation which chooses to survive must conduct ruthless economic warfare against London, Hong Kong, and the offshore, "unregulated" financial system as a whole. When and if the United States government comes to its senses, the U.S. dollar will be restored to a gold-reserve basis, at a competitive cost for producing monetary gold, and we shall crush these evil swindlers of London, Canada, Hong Kong and Singapore, as they deserve. In the meantime, only a combination of "exchange controls" and national-banking credit-issuing policy can defend nations from collapsing under the full force of the depression Paul "Benedict Arnold" Volcker is organizing on behalf of Great Britain.