Editorial

Time for emergency measures

"Everyone is waiting for the sound of the crash. They won't hear it. Brazil has already crashed, but the Brazilians haven't perceived it. The banks have not lent the country anything since September."

—*Prof. Adroaldo Moura, adviser to Brazilian Planning Minister Delfim Netto*

The genteel hoax announced by the International Monetary Fund, Mexico, and Argentina last week notwithstanding, the world is on course towards the biggest monetary blowout of world history, with a probable deadline of February 1983—as *EIR* argued last August. Whatever short-term refinancing arrangements may be thrown together between now and year's end, the disastrous decline in international trade reported in this issue guarantees that the problems will come back with a vengeance the following quarter, like Antaeus after falling to earth.

Whether the new plaster will hold the crumbling bricks for even the next two months appears questionable; Brazil, the biggest debtor of all, has run out of reserves, and is now scrambling for 90-day money, selling gold, and otherwise failing to raise much of the $4 billion it needs to ride out the year, as reported elsewhere in this issue.

And despite the spectacular rise of the dollar during the past two years, the irony is that the United States, as the major absorber of foreign credit during 1982, is most vulnerable to the coming shock. With virtually all domestic savings absorbed by a net federal financing requirement of over $200 billion this year, the U.S. capital markets are now dependent on the foreign capital inflows generated by pre-panic shifts in deposits. Of course, the same flight-capital flows that financed the American deficit at relatively low interest rates (but still-high real interest rates) drained the deposit base of the international banks, and prepared the crisis now unfolding. The dollar and associated capital markets are now the most vulnerable in the world.

It is time to consider the dollar-defense policy this publication advocated when the dollar ran out of control in October 1979. Fed Chairman Volcker, it will be remembered, left the Belgrade International Monetary Fund meeting early, to announce the "monetarist" package that did, temporarily, rescue the dollar, but only at the expense of destroying its real basis in world trade.

At the time Contributing Editor Lyndon H. LaRouche, Jr., argued that the dollar must be backed by an expansion of international trade, including a program for high-technology American capital-goods exports to the developing sector, and a return to gold settlement of current accounts deficits among the leading industrial nations: substantially the same recommendations that President de Gaulle and his economic adviser, Jacques Rueff, had made to us in 1965. We may have only one opportunity, sometime during the next several months, to accept this advice before the situation deteriorates past all counsel.

The principles of such a re-organization are elementary, and known to every businessmen who ever conducted a competent bankruptcy proceeding for a potentially sound company. A cutoff date must be assigned to the entire mass of developing-sector obligations past which they will not pay debt service; this debt must be exchanged for 2 to 4 percent nominal-interest long-term bonds to be held by creditors; and a rediscount market for such bonds must be created by the monetary authorities of cooperating nations.

Successful reorganizations work only if the future income stream can diminish the relative burden of carrying the existing debt—which is why all the reorganization plans circulating on the Bank for International Settlements circuit are fraudulent. The re-organization will work if and only if treaty arrangements between nations facilitate the issuance of long-term export credits for specific development projects in the developing sector; commercial banks may be integrated in this system through the rediscount function of central banks.

The entire issue boils down to transforming the dollar into an export currency, rather than a rentier currency, once again, and rooting its value in the productive power of American industry and labor.