

Finance Big Projects with a Glass-Steagall Credit System

by Lyndon H. LaRouche, Jr.

On May 13, LaRouche gave this video address to a private meeting. This is an edited transcript of his opening remarks.

Well, we're in very interesting times, as some people have said. We have a hopeless situation in terms of the trans-Atlantic monetary situation: This system is coming down.

What we're involved in, globally, especially in the trans-Atlantic region now, is a breakdown crisis of the type that hit Germany in 1923, from the Spring into October/November. Now, the difference today, is twofold. First of all, on a global scale, the present crisis in the trans-Atlantic region is worse than what happened to Germany in 1923. The difference is that in 1923 in Germany, the entire weight of the hyperinflation was concentrated essentially in one nation, which had been targeted for that purpose, whereas in this case, we have a worse crisis. You don't notice it, relatively, as much, because more nations are involved. But this is a much more severe collapse, which is hitting the entire world. But the fact that it's in the world as a whole, indicates that there are certain buffers which prevent us from seeing the concentrated effect, which you could see in the case of 1923 Germany. But, as I said, the situation is absolutely worse.

Now, typical is the case that we have about \$20 trillion of nominal U.S. debt, largely engendered by the

bailout operation, which is choking the United States to death, right now. We have a similar situation in continental Europe under the euro, and the British system, which is just standing immediately outside the euro system, is in a very bad condition, too.

So what we are looking at right now, is the imminence of a general breakdown crisis of the trans-Atlantic region. Such a breakdown crisis, while concentrated in that region, could not be avoided in China, India, and so forth. So the Asian sector, while it's in a much healthier condition now, than the trans-Atlantic region, could not withstand the effect of a collapse of the trans-Atlantic region.

Now, there is an obvious solution, which is the model for it, with what happened in 1933 with President Franklin Roosevelt, especially with the Glass-Steagall Act, which he instituted then. The same kind of procedure works now. What people generally don't understand, as in these times, is what the fundamental difference is between a credit system, which is what the United States was designed to be, as opposed to a monetarist system, which still prevails in Europe.

What has happened, since the assassination of two Kennedys—one, John and then later, Bobby, who was about to be nominated then, for Democratic nominee for President—but since that time, we've gone more and more into a long-term, hyperinflationary process inside the United States. So that we have a situation, as

in Wall Street, but also in the European system, in which most of the debt outstanding, the debt which is counted as assets, is worthless. We have, as I say, about \$20 trillion of debt, which is actually worthless, on the one hand; but on the other hand, we have hundreds of trillions of dollars of international debt of various forms, which is also worthless: That is, *this stuff can not be redeemed*. So, it is not really an asset, but we're carrying the burden of trying to puff up these assets which have no intrinsic worth.

So, we've got to look for a complete crash.

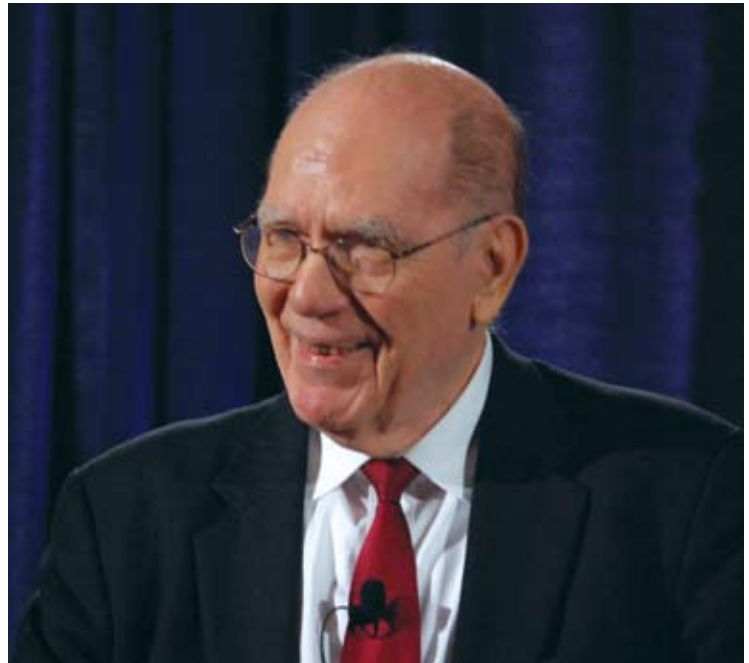
The Preamble: Pivot of Our Constitution

The only way we can avoid a crash, is by taking measures of reform modeled upon the success of what Roosevelt did in 1933, with the Glass-Steagall Act then, which was to return the United States to its Constitutional form of government, a credit system, which was established under the U.S. Federal Constitution.

Just to understand that, because many people are not familiar with it. What happened was that the United States came out as a victor in a War of Independence. But they found themselves, the United States, the various states, all virtually bankrupt, as a result of the war debt they had incurred during that period. The situation seemed hopeless, until the ideas of Benjamin Franklin and the initiative of our Treasury Secretary [Alexander Hamilton], moved for a U.S. Federal Constitution.

Now, our Federal Constitution is essentially based on the pivot of the Preamble of the Constitution—that's the essence of the Constitution. But the point was, Hamilton's point was, that what we should do, is recognize that the war debt, which was held against the separate states, could not be paid by the states. Therefore, the Federal government had to be created to absorb a debt, which was essentially the war debt, and by absorbing that debt and then using it for a credit system, as a system of credit and using that credit for investment in development of the physical economy of the United States, essentially, we could solve the problem.

Now, we did, essentially, solve the problem, and we did it repeatedly, a number of times. But we were dominated by the British Empire, and therefore, the power of the British Empire often intervened, as through Wall Street and Boston, the Boston banks, to crush us. And then we would come back on the basis



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LaRouche told the meeting: "People who are involved in financial matters, such as various kinds of business, are going to have to make a slight change in the way they think about things. First of all, they have to understand that they depend upon the benefits of a credit system; that the old monetarist system is not going work."

of the credit system: This is what happened under Abraham Lincoln. The credit system launched a great recovery, through the period of the 1876 Philadelphia Convention. And Roosevelt did the same thing, really, to use the idea of the credit system, which was what his Banking Reform Acts were, to launch massive credit which could be used to rebuild the economy, and actually, then was used, of course, in the end, to finish off World War II.

So that's where we are today.

Now, we have one act in the United States which is now before the Congress. It's an official act, filed for proceedings and voting in the Congress.¹ This act would save the United States, and could be the vehicle for saving the trans-Atlantic community of nations. That's the basic point here: By using Federal credit, under a reform, in which we essentially move the debt that belongs to Wall Street and similar institutions, and move

1. The "Return to Prudent Banking Act of 2011" (H.R. 1489), "To repeal certain provisions of the Gramm-Leach-Bliley Act and revive the separation between commercial banking and the securities business, in the manner provided in the Banking Act of 1933, the so-called 'Glass-Steagall Act', and for other purposes," introduced April 12 by Rep. Marcy Kaptur (D-Ohio).

it there: Let Wall Street sort it out. Because that kind of debt is not the kind of debt that our Constitution allows, for what we call the commercial banking system, and related kinds of banking. So therefore, by going back to the principle of the Constitution, which demands a credit system for our commercial banking system, and a separation of that credit system from the monetarist system, which is the Wall Street system, we were able, then, under Roosevelt, to save the United States.

We can do the same thing again.

The First Step: Glass Steagall

Now, that means that people who are involved in financial matters, such as various kinds of business, promoting business and so forth, are going to have to make a slight change in the way they think about things.

First of all, they have to understand that they depend upon the benefits of a credit system; that the old monetarist system is not going to work. Most of Wall Street is going to be more or less wiped out, in terms of assets, the same way it happened under Roosevelt, but this time it's going to be with bigger impact, because the problem is bigger. But we can launch hundreds of billions of dollars a year, in terms of credit, to go into various kinds of projects which rebuild the economy.

First of all, we have to bring the states back into balance. The states are now in a process of collapse, they're bankrupt, and under the present government, the present President, and the present policies of that Presidency, there is no chance for the United States to survive. We're dying right now, and you see it in the condition of the states, some states worse than the others, but they're all in it. There is no hope for the United States, as long as this present system is in place: You can't save it, because we're already in a worldwide crisis, especially in the trans-Atlantic system, which is coming down. And there's nothing in the works now, that will ever reverse that. We're in an absolute collapse. Therefore, as Roosevelt found the situation in 1933, in particular, we have to make a similar kind of adjustment now.

So the first step is Glass-Steagall. Glass-Steagall separates the Wall Street banking and similar kinds of banking from the credit system, from the commercial banking and related kinds of banking.

Now, by putting that debt, which amounts to several trillions of dollars of debt—which is largely Wall Street debt, really—by putting that off to one side, in the Wall

Street side of things, we now free the United States government from the obligation to carry this large debt which is generated to a great degree by bailout.

At that point, several things can happen: One, we can put the states back into operation. The states of the United States are individually going bankrupt, they're on a verge of collapse, and there's no hope of succor for any of them! The United States can not exist under a continuation of this situation! By getting up to \$17 or more trillion off the backs of the Federal government, which is where it lies implicitly, we are then able to supply credit into the states, and restore the states of the United States to their full function, restore the essentials.

We are also, then, able to launch large-scale projects, of the type that Roosevelt used, but we know better how to do that now, and these projects will mean a general recovery, of the states, the state economies, and of the national economy. We have things like water projects, mass transportation projects, all kinds of things. And these projects then, of course, as usual, mean that local businesses, smaller enterprises, so forth, are able to function, are able to make investments and so forth.

Now, where some of you, at today's proceedings, work—this means that you must think in terms of a shift which is in accord with this: You don't have the kind of money, Wall Street money, on which we've been depending for a long time now, especially the past two Presidencies. We now have to go to a credit system. A credit system can be reasonably abundant. And the problem here is to get the teams of people who are involved in this sort of thing into tandem with reality, which means that we've got to get businesses that have closed up, we're going to have to reopen them, or create new ones, because we've got to build a basic economy. We've got to build the small to medium-sized, as well as the large.

So this is where we stand.

We Need Big Projects

The big driver is going to be several things. First thing: It's going to be big. Because if you don't have big projects, you are not able to get the small projects going. It's the big projects that provide the stimulus for the small projects. And it's the success of the small projects which sustains the big ones.

So therefore, this kind of management, a new management based on a credit system, using U.S. Federal

laws enacted for this purpose to create channels—as Roosevelt did!—create channels by which we can put credit into areas to stimulate these smaller and medium-sized businesses in particular. Then the big businesses, the states, and the Federal government, and so forth, can protect the big enterprises directly. It's the smaller enterprises which are essential to that, the medium-sized and smaller enterprises; we're are going to need a management flow of credit into them, so they can get back, not only into business, but back into a growth pattern in business. So this is the kind of situation we face now.

I'm optimistic about what could be done. Let me just give one more fact about this thing, which is crucial: The only way that we're going to avoid a major collapse of the world economy as a system, is by having the United States re-enact the 1933 Glass-Steagall Act; that separation of the two types of banking from one another, which allows the Federal system to give the mass of credit to restart the economy, restart the states, and also, to start certain large projects.

For example, we are too dependent upon automobile travel. This was an idea that came up, especially in the post-war period, of takedown of the railway system, takedown of the mass-transit systems, and go to the automobiles on the highway.

Now, there were reasons why the Eisenhower plan made sense at the time. The Eisenhower plan on the highway system was based on the fact that under nuclear bombing, and similar kinds of bombing, the railway system of the United States would not be able to function. Therefore, the idea of having a highway system, an improved one, which could fill in, if a war-time condition destroyed the railway system—that was a sensible thing at that time, from a strategic standpoint. From an economic standpoint, it was not good. I lived through that, in my experience in the 1950s and so forth, in business. I saw that sort of problem.

So, we're going to require a national transportation system, and a national power-grid system. We're going to require a large emphasis on nuclear power, and also going into thermonuclear power. We can do it. We have the background for it. It's going to take some effort to restart this process, but we need high energy-flux-density power, or we can not rebuild the U.S. economy! This means an emphasis on nuclear power, and going into thermonuclear power generation.

We also need a major water project: Now, we have proposed going to the prepared, pre-designed NAWAPA

[North American Water and Power Alliance] project. This would transform the United States, especially the western area. For example, NAWAPA installed would mean a change in the water economy inside the United States. It would mean water in an area which is now a desert area, water for an area where we're losing the agricultural productivity. For example, the Central Plains area is losing water, from subsiding of the water system *and* of the land-area. We are actually in a collapse, an economic collapse there, for that reason alone.

So therefore, we've got to get the water system of the United States under better management, with the view that we're going to take the Western states and the Central states, and we're going to get them back into a water balance, so that the agricultural development, and so forth, can go on.

We need the NAWAPA project because it's not only a water management project, but it's also a power project: This will be the greatest inception of power for industry and other uses that the United States has ever undertaken. This will also change the rate of growth of the economy of the Pacific region, as a Pacific trading region, because our development of that kind of system, will effect an influence of what's going on in Asia. And Asia is one of the areas where there's presently the greatest relative rate of growth, among some big nations.

So these are the kinds of projects we are going to need. But we're going to need the full panoply, the full structure, around this idea of high-grade engineering projects, such as rail and magnetic levitation and so forth; large-scale water projects, which are actually the extension of what the Tennessee Valley Authority represented under Roosevelt in his time, only on a bigger scale. And we can rebuild the United States rapidly. And similar things can be done for Europe. We have all kinds of great projects available for Africa; we can go into a real period of growth.

Now, that doesn't mean we're going to have a miracle overnight. The miracle will be that we survive, the miracle that we get our nation back, we get our states back, we get our communities functioning, and working our way up toward real prosperity from that starting point. That's where we stand. And this is the kind of thing that I've been involved with for a long time, so I have a lot of enthusiasm about this matter, as well as a certain amount of knowledge about it.

So, over to you.