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Excerpt from Lyndon LaRouche's speech

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Creating a Public Credit System

This involves, now, a special problem. And this is where I become somewhat technical, but it's necessary: *There is no way, no conceivable way, in which the existing monetary-financial systems, among nations, or of any nation, could be salvaged.* The degree of bankruptcy within the existing financial systems, is so far gone, there is no possible way of refinancing any part of this, within the terms of the system. There's only one thing you can do, and from that flows the only method that can work: What you can do, is put the entire, international monetary-financial system into bankruptcy.

Now, that's easily done, *technically*. Because these systems are so intertwined with each other, there is no such thing as a national monetary-financial system. The banks of the United States, the banks of Europe, don't own anything! They are controlled by the hedge funds. The hedge funds have been using the banks like toilets; they visit once in a while for comfort! Banks don't have resources in them. It's not a matter of settling how many dimes for a dollar. It's impossible. There are no reforms within the framework of the system that can work! Not only because it can't work on a national basis, and because it can't work for a system as a whole. The monetarists can all be unemployed: We don't need monetarists any more. Matter of fact, we would like to get rid of them!

Because, we're going to have to go to a completely new world system, and it's going to have to go by a certain kind of step. And this is the remedy: What has to be done—and my little proposal for this new legislation, for Federal protection of households, mortgaged households, but households in general, and banks; that is, legitimate banks, banks that actually take deposits and loan money, and conduct that kind of business. We need them, and everybody knows that. You need these banks, because those are the ones on which the community depends, for managing its affairs. Without these banks, communities don't function. So those banks, even if they're bankrupt, are going to be protected under this act.

Secondly: No householder can be put out of their home because of foreclosure. We're going to settle it? No! We're not going to settle anything! We're just going to take all this whole package of mortgage paper, we're going to take it, in one big package, and say it's all frozen. It's all taken in receivership by the Federal government. And it's going to sit there. And we'll arrange that the people who live in those houses will pay something to the relevant bank on that account, every month. But they will stay in their houses! We are not going to try to settle the accounts, because we know that the value of these mortgages is going to collapse to a very small fraction of their present nominal value. So any attempt to write down some of the mortgages, or buy off part of it, is not going to work. Because the intrinsic value of these mortgages—we don't know where it lies, but it lies "way down there," someplace!

And therefore, our problem is, to prevent a disruption of the U.S. economy, in particular. Therefore, how do you prevent a disruption? Well, you freeze it! It's like taking a firm into bankruptcy, into receivership for protection—you freeze it.

It now lies in the Federal government. The Federal government is now responsible, at some time in the future, to clean this mess up. In the meantime, it's frozen. The people will stay in their homes; they will pay a reasonable amount, as the equivalent of rent, into the accounts against these mortgages. But the mortgage will sit there in the banks! We're not going to try to renegotiate them now.

In other words, we're creating a *firewall*, against a chain reaction, already in process. We will have to do the same thing in other categories. What does that mean? It means that the Federal government—and we recommend this heartily to European and other governments to do the same thing—faced with this situation, you have to realize that you have to eliminate the factor of the present system, from the economic and related life of the people in the nation. And it's only by neutralizing that, by putting it in a cage—like a little squirrel in a cage, let it spin as fast as it wants, but it's going to stay in that cage. *Because we're going to a new kind of system.*

We're going to get out of a monetary system which is the basis for empires, of the type we've been discussing, and we're going to a public credit system, which is what the United States Constitution prescribes. The U.S. Constitution says, "We're not owned by banks. We're not owned by bankers. We own the bankers." Because, in our Constitution, the printing, or uttering of money, or the uttering of a promise to deliver a created money, is the power of the Federal government. The states have no power to utter money. Only the Federal government has the power to do so, and does so, only with the consent of the House of Representatives.

Now, the uttering of money, under this kind of system, is a *credit system, not a monetary system*. The government utters the currency, or utters the credit, against an issuable amount of currency, as the Congress has allowed it to do: The Congress votes a bill; the government can now utter so much currency, which will be charged to the debt of the United States. That is the equivalent of money.

What do you do with it? Well, you can do necessary things, but you also do something much more fundamental: You use this money, that you've created, this credit, you use this for large-scale infrastructural development, primarily. Because large-scale infrastructural development—and we're way short of it in the United States and in Europe, right now—it means all the things that are the public sector: power stations, mass-transportation systems, health-care systems, so forth. These are things which are essential to all parts of the population. They have no control over their need for them—hmm? They are facilities on which we depend. So therefore, we issue credit; we issue credit for fixing up infrastructure, maintaining it.

Now, when you start to fix up infrastructure, then you really put the rest of the economy to work, in contributing to this work of building up the infrastructure. So now, you issue credit to people who are doing that. Now, you're into the private sector, and you're bringing in firms which supply this or that facility, this or that job. And now, you are stimulating the business, in the community, through infrastructure for the future. And you're doing it in a way which keeps a balance between the ratio of the public sector and the private sector.

But how is this going to function? Let's take another problem here: We have now a floating condition of currencies. Under floating conditions of currencies, the price for lending is uncontrollable. Because, if the currency that you're dealing with is dropping in value against your currency, what are you going to charge for your interest rate? So, under a floating exchange rate in a declining economy, the tendency is, on the one hand, for a demand for cheap credit, and on the other, a denial of a possibility of generating it through the private sector, or through central banking.

So therefore, we have the problem, that, for global development, we must have a fixed-exchange-rate system internationally. What does that mean? Essentially, you try, as close as possible, to actually freeze currencies at their present relative values. Freeze them.

And then go to a state public credit system. How do you do the state public credit system? Well, we have China, we have India, we have Russia, we have the United States, and other nations, which all need a lot of things. And these things involve a heavy reliance on trade, trade goods. So therefore, if we're going to have lending and credit issuing across national borders, we must have a fixed-exchange-rate system. Otherwise, how are we going to determine what the rate of interest is going to be, in terms of medium- to long-term loans?

So, now, what do you have to do? You say, what's the basis for an international credit system? Is it a monetary system? No. The monetary system was a bad idea, didn't work out too well. We get rid of that.

We're going to have long-term treaty agreements. What do I mean by long term? I mean 25, 50 years, minimum. That governments, of the world, will enter into treaty agreements, long-term treaty agreements, in the form of trade and related agreements, in a fixed-exchange-rate system; and instead of trying to balance the system by letting currencies float, you balance the system, by letting the prices of goods within currency domains, float, within a regulated range.

So, the problem here, is that, on the one hand, we must *immediately* take this action. We must immediately bring a group of nations—and we're talking about weeks, now, because this thing is blowing! This is finished. There's no bottom to this crisis—*none!* You either stop it, by the methods I've indicated, or you don't stop it at all! And pretty soon, you have something worse than Germany, 1923.

You have no choice, that is, no rational choice. Do this, or else, the worst'll happen to you.

So, governments will tend to go along with this, only when they perceive, that they have no choice. Some governments are clinically insane, and won't go along. So therefore, we need to have a stable system, created by agreement among a growing number of nations who are joining the list of those who enter this agreement. And, essentially, we will try to reform the United Nations Organization, to perform a function in accord with this type of agreement.

Creating the Firewall

Now, in order to do that, you're making a transition from a monetary system to a credit system. You have to make it turn on a dime. Because a week of chaos, or two weeks of chaos, may destroy your country—you can't have it. So therefore, you have to come in with a *firewall*. And the housing and banking protection act is a firewall: The Federal government takes this category—the housing market poses a threat, a threat to the banking system; it's a threat to the entire system. Therefore, we must protect those two pivotal elements of the economic system, otherwise, *we don't have a chance of surviving!*

Are we willing to plug the hole in the bottom of the boat? If we're not, we're not fit to survive. And our elimination will probably help the human race of the future.

So therefore, we need a method of firewalls; now I mentioned two kinds of firewalls. I mentioned this act; it's a firewall. It is a *feasible* form of firewall under U.S. law. We just need that one piece of legislation, no more complicated than what I've written. That piece of legislation will create a firewall.

Now, we need another firewall: We need a firewall for the transition from the way the U.S. financial system is operating now, to what we are installing. We also need, in that, we need a firewall in the form of treaty agreements among a powerful aggregation of nations. In other words, if the majority of the powerful nations of the world agree that something is going to be protected, *it can be protected.* Without such an agreement, it can't be protected: That's a *firewall*. If these nations agree to come to each others' support and defense, on this issue, knowing that it's their interest that's at stake—a firewall, a transition from a system that has failed, the Cold War system, the present system, the globalization system: These systems have failed. We must, with one fell swoop, get rid of them! Well, you can not reform them, piece by piece: You have to create a firewall, to *contain* the disease.

And you have to have the backing and support for this firewall, from a sufficiently powerful group of firemen, firefighters. Those firefighters are powerful governments, who agree to cooperate with one another to defend each other's interest, their mutual interest: the same thing as the Treaty of Westphalia, the Peace of Westphalia—the *interest of the other.* The nations know they're going to Hell, if they don't protect one another. Therefore, the interest of that nation, just as the people in the Peace of Westphalia after the Thirty Years War, knew: *They had to go to this, to protect themselves! They had to put the interest of the other, first!* And that had to make that a *firewall*, and all decent European civilizations since that time, depended upon that 1648 Treaty of Westphalia. We need the equivalent now: *Firewalls!*

And we need, above all, to educate people, to understand *that there is no alternative*. Because there is no alternative! The boat is sinking! Fix the leak, or get off the boat! Don't try to get a better stateroom.

There's a principle involved in this, which is a sticking point: Most systems, economic forecasting systems that are used, the formal ones, the mathematical ones, are junk. A good economist does not depend entirely on figures. A good economist always looks behind the figures, to what the reality is. He does not go by the financial figures—never believe an accountant. Use the accountant, employ the accountant, but never believe what he writes. You need his figures, you need his head, but you're going to have to decide what it really means, not him.

And the problem is, that we operate, as right now—we're in post-industrial economies, not entirely physically, but ideologically. These economies—look at the government, the government of Germany, the government of other countries—they're all, ideologically, post-industrial societies. They have no perception of reality. They *don't like* reality! It annoys them. It gets in their way. They would ignore reality where it's possible. "If reality comes in the front door, we will *defy* it!" That's your present population.

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