Global Financial Reform Now!

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A good half-century after the Bretton Woods Conference and 30 years after the world currency order was destroyed without a replacement, the post-war financial system is de facto bankrupt. Since the end of the 1980s, the world financial system has survived only through increasingly desperate bailout actions by the global crisis managers, according to the formula: "If you are in trouble, double." Room was found for the speculative financial bubbles only by pumping more and more liquidity into the financial markets, each time more than the last, which directly feeds the generation of new speculative bubbles and continually increases the harm to the physical economy. It is high time that the procrastination over a declaration of global bankruptcy be ended, to make the world's governments free to take the pathway to an completely reconstituted new worldwide financial, currency, and economic system.

Since the end of the 1980s, one financial catastrophe has followed on the tail of the other. In October 1987, the stock markets suffered their greatest crash since World War II. A little bit later, the U.S. junk bond market imploded and the savings and loan crisis erupted. The 1990s began with the collapse of the Japanese real estate and stock market bubble, from which neither Japan's banks nor its real economy have yet recovered.

In January 1995, even according to the words of then-IMF Managing Director Michel Camdessus, the financial system stood immediately at the brink of a "true world catastrophe." The U.S. government and the International Monetary Fund (IMF), in order to support Mexico, had to take action, cloaked by night and fog, tying up what was then the unprecedentedly large sum of $52 billion for an emergency rescue package. The U.S. dollar was strained nearly to the breaking point. Then came the collapse of Barings Bank. And in Spring 1995, the Japanese banking system, with $1.2 trillion in bad debt exposure, stood at the edge of the collective abyss.

Individual governments were promoting a global financial reform at the Summer 1995 meeting of the Group of Seven. But instead of adopting this, the most important central banks of the world activated their would-be "wonder weapon": global reflation. Short-term interest rates would be lowered step by step, in order to thereby place enormous sums of additional liquidity at the disposal of the international financial system. In Japan, the short-term interest rates would even be lowered to one-half of a percentage point in order to create risk-free financial earnings for the banks. The leading central banks' reflation tactic kindled a new round of price explosion on the worldwide bond markets.

From the Summer of 1997, the single remaining region of growth in the world, Southeast Asia, came into the crosshairs of the monetary speculators. The sudden collapse of their currencies by up to 50-80% of their value had, in the meantime, given the signal for foreign capital to take to panicked flight. Thereupon the banking systems of the ambushed nations broke down; this then dragged their collective economies over the precipice together. In July 1998, Chinese Foreign Minister Tang Jiaxun spoke of "damage like that in a war." IMF rescue packages to the tune of approximately $200 billion all-told were only approved by the Western creditors in the face of collapse. Then, in August 1998, the Russian debt-bomb exploded. Finally, in the Fall of 1998, the collapse of the LTCM hedge fund followed.

A secondary effect of the financial crisis in Asia, Russia, and Latin America was the bundling together of a powerful negative capital stream, which now flowed into the presumptive safe haven, the U.S.A. The myth of the "New Economy" and the excessive domestic credit extension in the United States did the rest, allowing the pumping up, in the late 1990s, of the greatest speculative bubble of all time.

But this, too, is now finished. Even though Alan Greenspan lowered interest rates 11 times in 12 months, the American economy can no longer even get up on its feet. Both corporations and private households are hopelessly over their heads in debt. The showcase corporations of the "New Economy" have revealed themselves to be swindlers and imposters. Since March 2000, the stock markets have imploded. For the first time since 1939-41, the U.S. stock market will have fallen for the third year in a row as a consequence. Since Spring 2000, $7 trillion of paper values have already gone up in smoke. A couple more trillions of dollars have also

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evaporated in Europe and Asia. An end to the core meltdown on the worldwide stock markets is nowhere in sight. Simultaneously, an avalanche of mega-bankruptcies is sweeping back across America and Europe. Five of the eight largest corporate bankrupcies in U.S. history have occurred since December 2001 alone.

The global financial and economic crisis has worked its way back from the periphery right on into the center of the system. The Federal Reserve has long since expended all of its ammunition. The American government, incapable and unwilling to act against the systemic breakdown, is seeking its salvation instead by means of military adventures.

LaRouche and the 'New Bretton Woods'

The demands for a global system repair are bound up above all with the name of Lyndon LaRouche. Long ago, LaRouche had analyzed that the economic and financial-political paradigm shift that occurred in the mid-1960s—including the abrogation of the international currency system in 1971; the displacing of production and investment by service and consumer sectors; the neo-liberal prosperity doctrines of the 1980s and 1990s; and finally the "New Economy" delusion—had led the world onto a course toward catastrophe. In the Spring of 1994, LaRouche published an evaluation that an unavoidable impending disintegration of the global financial markets, at first in the form of a gradual, sliding collapse, comparable to a mudslide, was to be expected. Subsequent developments have verified this evaluation in the most complete way possible.

In April 1995, LaRouche published an appeal to the leading governments of the world, with the title "Global Financial Crisis: To Be, Or Not To Be." LaRouche emphasized that he was among those very few economists worldwide who had described in advance the then-unfolding systemic collapse and its essential causes. LaRouche compared the leading governments of the world with the tragic figure of Hamlet in Shakespeare's drama: Would they recognize the fact of the bankruptcy of the global financial system and begin to implement the measures required for a general reorganization, in the context of a bankruptcy procedure? If so, then, working out such a plan of concerted action would require some general stipulations to be considered, which LaRouche summarized in seven points:

- As long as governments hold fast to the political rules of the game or axioms of the existing international monetary and financial system, the presently accelerating disintegration of this system were inescapable.
- The only comparable 20th-Century situation that approximates the present process of the world currency and financial system is the monetary and financial breakdown of the Weimar Republic in 1922-23.
- There is no possibility of halting the general financial collapse, nor the subsequent disintegration of the global currency and financial system, as long as the system of the IMF and the central banks of all the leading economic nations and their corresponding governments do not resign themselves to a reorganization. Every attempt at a reform of the IMF, which does not break with its prevailing fundamental principles, would only make the situation worse.
- In the past 30 or so years, the population has been led to believe that traditional, successful economic policies must be given up in favor of a "post-industrial society" and related utopian thinking. An economic new beginning can therefore only be successful if, along with these ideas, the heretofore-accepted errors of governments and of a broad portion of the population are also recognized as such.
- The result of this policy can be symptomatically seen from the smaller and smaller portion of daily financial transactions that retain any relationship whatsoever to trade in physical goods. Since the beginning of the 1980s, we see that the worldwide ratio of goods output per person, per household, or per utilized surface area, is sinking, while the nominal financial value is climbing furiously. The continuous growth of this financial bubble is only possible along with the cannibalization of the shrinking real economy, upon which the existence of nations and their populations depends.
- The bankruptcy procedures for global monetary and financial institutions, must proceed along with a series of positive measures, such that, on the basis of local statutes in the various nations, relatively insignificant differences could be settled. In the case of the U.S.A., the following steps must be introduced:

—An insolvency procedure for the financial institutions of the old system, conducted in such a way that social chaos and uncompensated damages to the normal citizen are prevented.

—A monetary reform that, corresponding to Article 1 of the U.S. Constitution, makes the issuance of banknotes subordinate to the U.S. Treasury, rather than to the Federal Reserve.

—The resumption of the traditional protectionist policy for the defense of productive investment.

- Resumption of traditional economic policy, which represented the basis of all successful national economy in the era prior to 1964, and thus the increase of the productive powers of labor through a capital- and energy-intensive economic method, investments in research and development, and in the improvement of infrastructure.

For this purpose, the reintroduction of a National Bank, according to the example of the first U.S. Treasury Secretary, Alexander Hamilton, is required.

Of the manifold activities which LaRouche and his collaborators have pursued toward the success of a "New Bretton Woods," only a few may be mentioned here:

In February 1997, Schiller Institute President Helga Zepp-LaRouche and the Ukrainian parliamentarian Natalia Vitrenko drew up an urgent call to President Clinton to immediately convene a "New Bretton Woods Conference" of the most important nations, to place the international financial system under a bankruptcy reorganization, and to create, through a fundamental reform, the conditions for a real economic recovery. Several hundred parliamentarians from all over the world and many other personalities all endorsed this call.

The 1944 Bretton Woods International Monetary Conference founded the post-war financial system, which, despite its inequities and other defects, made possible extraordinary worldwide economic growth during the 1950s and 1960s. The system was killed on Aug. 15, 1971, by President Nixon.

In November 1997, Executive Intelligence Review News Service in Bonn-Bad Godesberg, Germany, organized an all-day seminar to bring to center stage of political discussion the urgent necessity of a New Bretton Woods monetary system. Among the 140 participants were numerous entrepreneurs from the *Mittelstand* [small and medium-sized industry], trade unionists, and representatives of economic associations from Germany, politicians from Eastern Europe, delegations from 20 embassies, and foreign economic representatives, as well as a speaker from an African exile association.

LaRouche's proposals attracted particular attention in Italy. On Feb. 16, 2000, an Italian Member of the European Parliament submitted a written interrogatory, calling upon the European Commission to organize a "conference comparable to the Bretton Woods 1944 international conference," whose goal would be "to establish a new world monetary order, to eliminate step-by-step the mechanisms which have led to the rise of the speculative bubble, and which can set into motion dirigist programs for the revitalization of the real economy."

Following a meeting of LaRouche with Italian Members of Parliament in Rome, 25 senators in the Italian Senate put foward a motion on Oct. 19, 2000, by which the government of Italy was charged with working toward a New Bretton Woods conference.

A resolution transmitted to the Italian Parliament on Feb. 26, 2002, which promoted the call for a New Bretton Woods conference, was signed by 45 representatives and 49 senators of all parties.

Bankruptcy, a New Order, and Reconstruction

In view of the advancing process of economic and financial disintegration, all proposals which merely aim at minor corrections to the system are on the wrong track. Among them are not only those put forward over decades by the Bank for International Settlements (BIS) for the elaboration of a "new financial architecture"—the regulation of offshore financial centers, the domestication of "hedge funds," and the like—but also the perhaps well-meaning, but in today's situation, totally insufficient efforts by a few non-governmental organizations to pour sand in the machinery of the financial system.

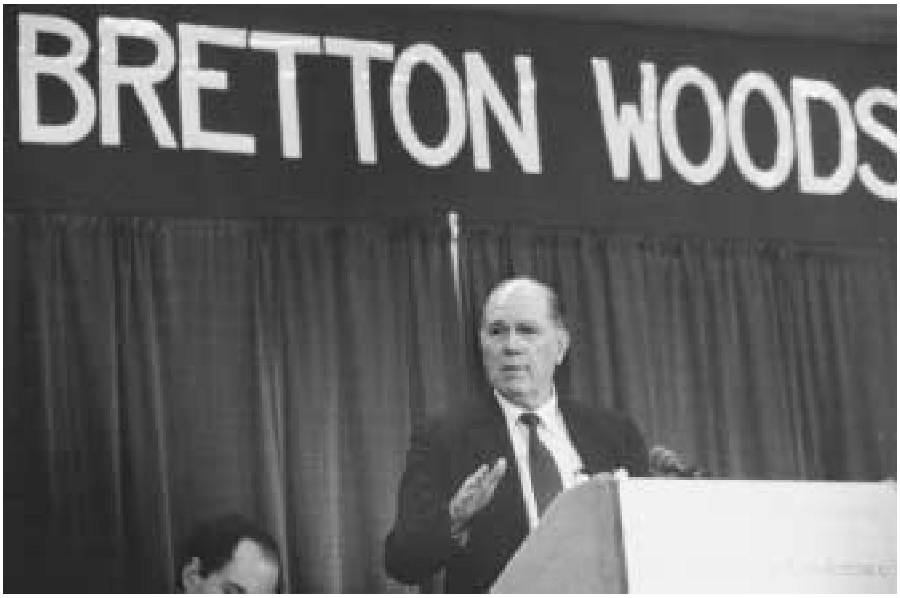
By contrast, the minimal requirements for a global financial and economic reform must encompass the following three areas:

- A form of bankruptcy proceeding involving the existing structure of the worldwide financial instruments, because their volume stands in such gross disproportion to the substance of the real economy, such that nothing less than an orderly sorting-out process can prevent an impending chaotic breakdown.
- A new financial and monetary policy framework of principles based on recent past experience: on the one hand, that of the relatively successful framework represented by the post-war Bretton Woods system up to the mid-1960s; on the other hand, the colossal policy failure of the step-by-step paradigm shift carried out over the last three decades.
- A productive reconstruction of the world economy, including the establishment or broadening of credit institutions requisite for this purpose.

In particular, the following points can be elaborated:

1. *Sorting out*

- Fictitious financial paper must be sorted out. Obviously, speculative, fictitious capital must be written off through governmental decree, without compensation or reimbursement.
- Financial paper of an unclear nature must be frozen.



Lyndon H. LaRouche, Jr. on Feb. 15, 1997, elaborates his proposal for a New Bretton Woods financial reorganization.

• Servicing government debt will be suspended through a moratorium, in order to guarantee that financing of vitally important state functions be safeguarded.

2. *Reorganization*

• Financial instruments that are covered by productive, real economic capacities must be protected.

• The means of financing pension funds, medical insurance, and other socially unwaivable obligations of public and private institutions must be protected so that they remain capable of functioning.

• Regular savings accounts must be protected and remain viable.

• The functioning of private banks that serve the financing and marketing of real, productive economic activities must be preserved.

3. *Dirigistic financing and a National Bank*

• On the basis of the financial sovereignty of the nation-state, a public National Bank or Kreditanstalt für Wiederaufbau [Reconstruction Credit Corporation] creates long-term, low-interest credits. These credits flow exclusively into the reactivation and productive expansion of heavy industry, medium and small industrial enterprises, and agriculture. Great national and transnational infrastructure projects function as "drivers" for the entire economy.

• State and public credits will be anchored within private banks with traditional lending business relationships to heavy industry, medium and small industrial enterprises, and agriculture.

• It shall be resolved that transcontinental great infrastructure projects, such as the Eurasian Land-Bridge or universal space travel projects—for example, the Mars colonization project—will serve as the catalyst for an economic recovery.

4. *A New Bretton Woods System*

• The governments responsible for setting these goals must come together at an international emergency conference, within which, under present conditions, the United States and China have the key roles.

• A new world monetary system will be created—a New Bretton Woods—such that the political economies will be based on fixed-parity exchange rates, the gold reserve standard, and the categorical prioritization of the real economy's development (and reconstruction).

The Bretton Woods international monetary and financial system, which was effectively destroyed on Aug. 15, 1971, by U.S. President Richard Nixon, rendered possible, despite its very considerable defects, the extraordinary worldwide economic growth of the 1950s and 1960s. At that time, the currency and financial system was tightly coupled to the real (physical) economy and based upon nation-states and national economies. Fixed exchange rates as well as the gold-reserve standard made currency speculation unattractive within the Bretton Woods system. The household and corporate economic goals setting were long-term and the expansion of real production was carried out. The securing of full-employment was a government policy goal.

Of historical relevance in this context, is the argument which Dr. Wilhelm Lautenbach [of Germany] had developed in a 1931 memorandum for a conference of the Friedrich List Society. Lautenbach made clear that under conditions of depression and international financial crises, economic development is possible neither by leaving things to the so-called forces of the marketplace—because a deficit of buying power encounters an apparent oversupply of goods—nor through austerity measures to balance the state balance of payments, because that only achieves the reduction of tax revenues, thus merely exacerbating the crisis. Lautenbach proposed, on the contrary, the creation of credit for those productive projects in which one would normally invest in a prosperous economy, and also providing credit for the general welfare, as these measures will enhance the productivity of the production process.

Had Lautenbach been able to put into effect his proposals for dirigist economic-driver financing, the political and economic conditions which made possible Hitler's seizure of power two years later would not have existed. We ought not to repeat the same mistake!