tory, you have two types of situation, in which the seemingly "impossible" is made to occur. One is the case of a rational strategy, that exploits the strategic blindness of an opponent. The other is the case, in which one side, even if something may not make sense, might do it anyway. For example, the "chicken game," the strategy put forward by the Rand Corporation in the 1970s, in which one side declares, in effect, "I am a madman." So, today, you have the danger, also from Israel, that some idiot might be deployed to to something crazy, and the government says, we don't care about the consequences.

Don't overlook the danger that, according to a new Bush Administration policy, a regional element of the Air Force could drop a nuclear weapon. This is very much on the table today. If such a thing happens, where would that stop? The situation is highly unstable, LaRouche said. Bush, Cheney, and Blair are clinically insane, and the future of civilization depends on getting them out of power now.

Dialogue With LaRouche

How Do You Determine A Currency's Value?

In the concluding panel of the seminar on June 29, LaRouche responded to a lengthy question from Prof. Stanislav Menshikov of Russia, asking how nations would come to a determination of the values of their currencies and relative exchange rates. The discussion here has been edited for publication.

LaRouche: I just want to focus on one particular point, which is crucial, which is one which has to be—the least likely to be understood, and the most important to be understood: On setting the rates of relative values of currencies in an emergency, new monetary agreement.

Now, the problem here, is a problem of method. It's a problem, the distinction between the Aristotelean method of astronomy, that of Claudius Ptolemy, which is fraudulent, and the method of Kepler. Now, this is a very ancient issue. It's the same issue which is raised by Leibniz. In the Ptolemaic model, it's the mind of the accountant. And the first thing you have to do, in dealing with economics, is get rid of the accountants. It's like getting rid of Claudius Ptolemy on the way to understand astronomy.

The value of a currency is not its statistical average value today, based on exchanges. The value of a currency is its *power.* Now the power of a currency is expressed, how? It's expressed by the rate of growth of the economy. If you invest, you're talking about investing in a currency. Now, there is such a thing as an interest rate. But the question is, what is the real *earned* interest rate? What is the real *earned* rate of gain, of a currency? And that determines its relative value.

Now, you're dealing with, today, if you take the statistics of today of any part of the world economy, and you try to negotiate on the basis of that, you are worse than Claudius Ptolemy, who committed a deliberate fraud. It wasn't just a mistake or backwardness. The guy was a hoaxster. He was a Roman. And all Romans lie. So, you don't start from there.

A Currency's Power Must Be a Political Decision

The *power:* Now, how do we determine the power of a currency? That has got to be a *political decision* among the relevant governments. You don't take an average—"Well, we'll take an average of this currency; we'll take an average of this currency"—this is absolute idiocy, which everybody will perform!

The question is, then, how do you do that? Well, you say, "What is the rate of growth?" Now, in the United States, for me, it's very easy. People say the United States is a hopeless case. . . . Not true. . . .

The point is this, we can determine—we will determine the value of the dollar. And I estimate the value of the dollar, on the basis of what we can do with it. . . .

See, the key problem, now, is credit formation. The United States, in particular, has not invested enough money, in terms of credit, or created enough credit power, to build up the infrastructure of the United States. If I, as President, with the support of the Congress, generate an authorized issue of credit under the U.S. Constitution, and I commit that credit to a project of development of basic economic infrastructure, and on existing designs of projects which are ready to go—water projects, power projects, mass-transportation projects, health-care and facility projects, that sort of thing—we can automatically increase the net rate of output of the U.S. economy, *this year,* above breakeven. And it's now been operating below breakeven for the entirety of the Bush Administration, and even earlier. Even nominally, since 1999-2000, the United States has been operating as a bankrupt entity. And it's not bankrupt, because it's a nation, and a nation has the power to make the decision to become *un*-bankrupt. Simply by a decision.

Now, if we make that decision, suddenly the U.S. dollar which is now in poor condition—if you increase the amount of credit issued at low interest rates, under a fixed exchange rate, for these projects which are needed, you immediately take a bankrupt economy, and suddenly, as Roosevelt did, especially as he did from 1940 on—you suddenly have the most powerful economy in the world.

So, what's the value of the dollar?

The value of the dollar is the *effect*—determined by the *effect* of the decisions which are—that is, the performable decisions—which are made by governments.

Now, in a monetary conference, you don't say, "Let's bring the accountants in." No, I say, "Keep the accountants out. Because they will simply cloud the discussion with nonsense, and you won't get the discussion you want, because you'll be discussing nonsense forever. And debating it." Keep the accountants out, and get the economists in who understand this stuff. And say, "All right, now, here's what the U.S. dollar's going to do. By agreement, by commitment. A sovereign agreement: *We are going to grow.* We are going to show you how we grew to be the most powerful economy, the world had ever seen in 1945. What're you going to do? What's your rate of growth? What are your technological commitments? What's your infrastructure development?"

EIRNS/Wolfgang Lillge

Left to right: Dr. Stanislav Menshikov, Lyndon LaRouche, and moderator Dr. Jonathan Tennenbaum. Dr. Menshikov's intervention sparked an intensive discussion of how nations can determine the value of their currencies.

Increase the Amount of Credit Issued

Well, in Italy, I can go to Claudio Celani, and I can ask him. He's got a list of things that have to be done in Italy. He'll represent Italy. Because we have all these projects: the Mezzogiorno project. We have all the things that go with that, which are urgently needed by Italy! You're going to create credit? You're going to do that—fine. Now, your lira just increased in value.

Germany: Germany's an easy one. You set up an operation based on the Kreditanstalt für Wiederaufbau. You can revive the *Mittelstand.* Go into long-term projects of the type that Germany, and Russia, and China, and India are already developing. But they're now a joke, relative to what the need is. I mean, when I look at these figures relative to the size of these populations and countries, what is being talked about, about growth is important, but it's a joke, compared to what is required.

Now therefore, we go to these countries, and say, "What is your policy? Where's your power? What is your rate of physical growth that you decided to have? And is it feasible? Do you have the project designs, do you have the conceptions that will produce the benefits?"

If we come up with such a list among countries, we then say: Okay. These are the relative values. Are we all committed to them? Yes. Okay, we'll set up a thing. We can even set a two-tier currency system: In some cases you'll set a long-term investment currency system, which will be the official exchange rate of the currencies on a regulated international market.

Now, take the case like the Russian ruble, which is a piece of trash in many respects. But Russia is a valuable nation, which, under certain programs, will immediately come back, so you want long-term investment. You create a protected area of the official Russian currency. You agree to defend that currency, which is based on a lot of investment in basic economic infrastructure. For example: We all need Russia's—that little institution, the Vernadsky Museum on Red Square, or what used to be called Red Square, in Moscow. . . . This is based on people who are in their 70s and 80s in age. This is the hard core of Russia's scientific capability. This is the Vernadsky capability, which is the potential science-driver of the world today.

And this is also the hard core of what the Russia-China-India complex is: Because infrastructure is the key! Infrastructure and development of natural resources, is the key for Eurasia. And therefore, when you create an agreed investment currency, a long-term investment currency, which you would protect, then you would try to get the other currency to come up into agreement with the long-term currency. The long-term, heavy currency would be the currency of account, for relations among states, at initiation. Then, you would work to bring up the performance of the currency of the state, the current internal currency, up to agreement with the long-term, agreed value of the official national currency.

Infrastructure Is the Key

Now, you define currencies by a tendency toward *equality of power of reproduction.* In other words, a Leibnizian concept; a *dynamic* concept; a Vernadskian concept, in the sense that you no longer use the Cartesian method of accounting. If you find a Cartesian, you put them in one of these enlarged mental institutions, which you provide for them. . . .

You need to get away from this conception, this sterile, eunuch's conception of an economy. Eunuchs do not—most accountants are intellectual eunuchs—don't take into account the effects of reproduction. . . .

The power of a species is its power of reproduction. The power of an economy, the power of a currency, is a power of reproduction, the rate of improvement.

Menshikov: Can I interrupt you for just a moment? Will you yield?

You know, yesterday, I was listening to the Chinese interventions. They were talking exactly about what you're saying. They were saying, "Okay, the U.S. wants our currency rate to be changed towards the dollar. But that was *the* rate of currency that that helped our country develop in the long run—grow, etc." You remember. "That's the rate of the currency, that helped us to preserve economic growth, and political stability." They're already coming close to that kind of idea—I understand that your idea is more sophisticated.

LaRouche: No. They're not close to it. They're close to it in intention, but they're not close to it in effect.

Menshikov: I see. In intention, they are close.

But, whether it's the correct rate, or not, that's a different—because they are tied to the more immediate issue of competitive power, you see. Of selling their goods in the world market, you see.

LaRouche: We have to change that immediately, anyway.

Menshikov: They want to do that. But then, you come in and say, "Look. You are selling your stuff for prices that are too low. Five times or six times lower than they should be," right? Now, if they start selling them for the price that you suggest, they will never have a surplus in their economy.

LaRouche: It's not true. It's not true.

Menshikov: According to the current rules—according to the current rules.

LaRouche: Ah!

Menshikov: Of course it's not true! It would be an absolutely different thing.

But—so there has to be absolutely different approach, like something like what you are suggesting now. It's a difficult thing, because, getting those rates, based on those long-term, dynamic features is not an easy thing. But, it can be done.

But, they are thinking in that direction.

LaRouche: Yes, well see, China to me is easy. China's a very easy problem in this respect.

Menshikov: Because they have a government that can do whatever it wants.

LaRouche: No, no. It's not that. It's China has a commitment to its people.

Menshikov: Yes, that's true.

LaRouche: In India, we have the problem with the caste system, which is an obstacle to accepting the responsibility for the poor, by certain leading circles. In China, you have leading circles which are concerned with the future of China, over the coming two generations. Of *all* of the Chinese people. Therefore, you need a power, which is a power of *all* of the Chinese people. Which is a problem which China faces now. I mean we had the discussion yesterday, the presentation yesterday—China does not want to be merely a vehicle to be exploited, by taking in certain things from other countries, processing it, and then re-exporting it. They want an independent *national position in control of their own economy.* And they should have it.

But the problem is, they are now forced to sell *below* market value, true market value, on the world economy. The result is, the skim-off by some Chinese billionaires diverts money from internal purposes. But the result of the relationship, the international relationship, is that there's not the inflow into China, which gives them the *rate of capital formation,* they need to assure reaching goals, which are implicitly set by the Chinese government, for the next 25 years, the next 50 years—a two-generation goal.

Look Two Generations Ahead

So therefore, in defining a *power* relationship, you're looking at least a minimum of two-generations ahead in every country. And you're saying, if you have a rate of development of these countries, which you agree to, as an international agreement of cooperation among these countries; and you say, "What's your rate of growth?" On that basis, you can now set a currency value, based on a two-generation calculation.

Because, why? Because the way we're going to grow, is by debt. We're going to increase the indebtedness of the world. But we're going to increase it, in a calculable way: Which means, we're going to say, over periods of 25 to 50 years, depending upon what we're talking about. We are going to create a debt, *which can be repaid* within 25 to 50 years. Therefore, we want to know where we're going to *be,* as the time for repayment of the debt comes up.

We don't want to be in position like the United States was in 1957, after I made my first forecast on this kind of thing. You don't want to be in a position, in which credit is issued on a longer term than the physical life of the product against which you're issuing credit. Therefore, you can issue credit indefinitely, for the growth of economy, as long as the *net rate of growth of the economy exceeds the amount of net growth of debt-obligation.*

So, rather than looking at it from an accounting standpoint, you're looking at it from a functional standpoint. If we can develop an economy, up to a certain level, over 25 years or 50 years, we can then *create credit to allow it to develop itself, accordingly.* If it can not grow at that rate, then you can't give it the credit—because that would be insane.

Long-Term Cycles of Development

So therefore, the *power* of the economy, the relative power of a currency, is its potential rate of growth *over the term for which you are calculating.* And the basic long-term rates—for example: A nuclear plant is a minimum of 25 years. If you're investing in a nuclear power system, your basic inside estimate is 25 years. It may actually go to 35 years useful life. You have water-management systems, which tend to be a half-century, if they're properly maintained and properly designed. You have other kinds of things, which are long-term investments, largely in infrastructure, or in heavy capital investment. Agricultural crop: a minimum of three years, for a simple crop. For the development of a land area, to be able to crop it, maybe five to ten years.

So, these long-term cycles, which are a half-generation, or a generation, or two generations, are the characteristic feature of a physical economy. And if we can determine what the physical economic power of development is, then we can set the currency rates *relative to the rate of growth which we can foresee—if we adopt a policy, which ensures that this will happen!*

So therefore, you can't come and say, "Here's the value of the currency. Get the accountants in the room and figure out what these currencies are, relative to each other." That would be insane. And that's what's being done now, with bad calculations.

What you now have to do, is say, "What is the policy of the nations—what must be the policy of the nations?" Then, the people who are the representatives in negotiations, report back to their government, and say, "This is what is proposed. If we accept this policy, this will be the power of our currency, and other governments will respect it, and will sign the agreements." So, you get an agreement as a result, *not* of accounting calculations. You throw the accountants out of the room. And you say, "What are going to be our *physical economic decisions on investment,* over the coming 25 to 50 years? Over the coming two generations?"

And we have to get people into a consensus, on an agreement: This is what they're willing to do, to *support each other's development.* And therefore, instead of having an agreement based on a Hobbesian conflict basis, you must have an agreement based on a desire of participating nations *to help each other.* The same principle of the Treaty of Westphalia. That we can do.

Menshikov: Yes. Very good.

Money Is a Question Of Physical Economy

Here are LaRouche's closing remarks to the seminar.

The most important thing is, that we're dealing with a world in which there's a conception of money, which is the popular conception of money *by* governments, and by leading institutions, which, from my knowledge, is insane, by the standard of the effect of the concept, the way it's applied. That the value of money should not be determined based on some current accounting value. That accounting should be banned as a method for determining the value of money.

The value of money should be determined by a *scientific* principle, *not* an accounting principle. And the scientific principle is: What is a physically defensible determination of the will of governments and the ability of governments to perform in creating credit, over the long term, for the development of their economies and their productivities? And therefore, we among nations, should recognize this process, *use* this process, and set *values* in terms of credit, and exchange, on the basis of those determinations, which must be *physical, scientific determinations.* Because, the crucial thing is, what is the physical life of the investment? How is it going to be maintained? And how long is it, and what's its quality? Those are the bases on which you should issue credit: on knowledge of the determination and competence of the government *to create value,* to create wealth, and to have sufficient wealth, *to repay the debt you are creating, in a timely fashion.*

This is a *physical* question, *not* an accounting question.