

# LaRouche Promotes New Bretton Woods System While in Rome

*Here is the speech of U.S. Democratic Party Presidential pre-candidate Lyndon LaRouche, entitled "Toward a New Bretton Woods," in Cenacolo Hall of the Italian Chamber of Deputies, in Rome, on June 23. Due to technical difficulties, the first few minutes of the speech are summarized, followed by a transcript of the rest of his remarks. Subheads have been added.*

LaRouche said that the current financial and monetary system has entered a phase which in physics is called a "boundary condition," comparable to the change in physical state from ice to water, or to what happens when the speed of sound is approached, and a shock wave builds. This gives us only three, plus one, alternative ways in which the present financial and monetary system will be soon terminated: 1) a deflationary collapse; 2) a hyperinflationary disintegration; 3) a "military" solution to the crisis; or 4) the establishment of a New Bretton Woods system.

The current phase started in 1997, with the breakout of what was called the "Asian crisis," but which in fact was a general crisis, hitting first the yen trade zone of the global economy. At that time, Japanese Vice Minister of Finance Eisuke Sakakibara and U.S. Treasury Secretary Robert Rubin proposed a solution to the crisis, which was rejected at that time, but which has now been adopted, at the recent Chiang Mai meeting in Thailand.

But then, the United States went insane, and in October 1998, decided to adopt a bailout policy, driven by the Federal Reserve, that marked a phase-change in the crisis. From the threat of a deflationary explosion of the system, we shifted to a phase characterized by the threat of a hyperinflationary blowout, similar to the development of the hyperinflationary spiral in Germany from March to November 1923.

The power controlling the system, which is a financial-political-military power, typically reacts out of desperation to this type of situation, by launching wars, such as in the Balkans.

The system is currently bankrupt. Approximately \$41 trillion of world Gross National Product faces short-term obligations of about \$300 trillion. The United States is running a current account deficit in the order of \$500 billion a year, and importing capital in the order of \$1-3 billion per day.

*Transcript begins:*

So therefore, this pure political, military, and financial

power is used to intimidate and control other countries, while the U.S. press insists that everything is wonderful for the U.S. dollar—propaganda which can largely be considered part of the U.S. election campaign. The fact is, that other countries are not so stupid. That's why the group of Chiang Mai, which is the group of the ASEAN countries plus Japan, plus China, plus Korea, recently acted to free themselves from control by the present international monetary system. That is what happened in the G-15 meeting in Cairo recently. That is the process which is being introduced through the Organization of Islamic Conference, the group of international Islamic countries. What has happened in the euro area, in the changes in Maastricht direction, is a reflection of the Europeans' determination to defend themselves from this threat from London and from New York.

So, these are the immediate circumstances. The world is on the edge of saying, "If the United States goes, if Britain goes, if the monetary system goes, we must survive, and we must begin now to define alternatives to the present IMF, present financial system."

The same idea is expressed in a different way by the proposals for the Jubilee action—the forgiving of debt of countries which have been robbed too much. So, these political developments in various countries, the international movement for a New Bretton Woods, the international movement for a Jubilee year, coincide as a tendency.

## Hyperinflation

Let me point now to this question of hyperinflation, since there are some notable economists in the room, and others who have some competence in economics. Let me emphasize to you and to others the importance of not overlooking a close examination of what actually happened in Germany in 1923. You should compare the known facts about the present financial crisis with the events leading into the March-November 1923 Germany crisis, the change in the French occupation and reparations demands and so forth, and look at the way the German government responded to this concession to the British and French, and also New York City, at the point of a bayonet. And look at these months especially from March on into November [Figure 1]. Now, up until March of 1923, the process imposed upon Germany in 1923 had not produced a significant commodity price inflation. In March, that began to change. In July, it changed radically, and the rate of accelera-



(From right): Italian Member of Parliament, the Hon. Michele Rallo (National Alliance party); moderator Paolo Raimondi; Lyndon LaRouche; and Claudio Celani.

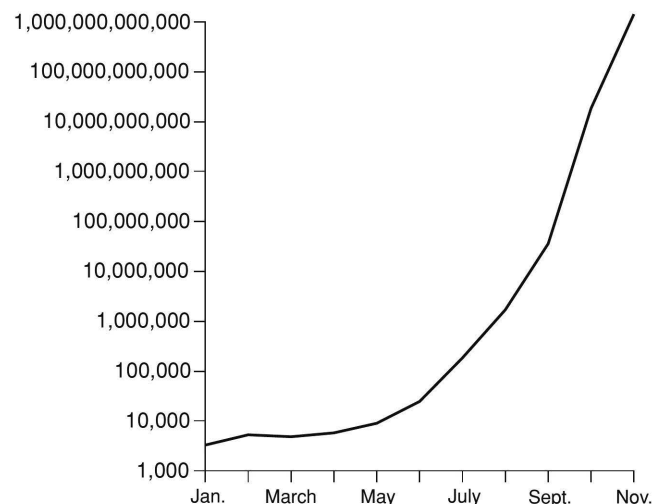
tion of commodity price inflation zoomed into the point of the October-November destruction of the reichsmark. If you compare everything we know about the present situation—and there are many hidden facts which governments and others are hiding; only after the crash occurs will we discover how insane governments have been, because then all the dirty laundry will come out for examination. But, on the basis of known facts, about Germany 1923, and known facts about the present situation, the world today is in a situation relative to hyperinflation, comparative to the situation in Germany 1923.

The first, most obvious, and most inevitable expression of that hyperinflationary trend in commodity prices is the recent zooming of petroleum prices. There is no supply and demand reason for petroleum price rises. The amount of petroleum being produced and available for purchase exceeds all demand. Pressuring OPEC to increase its production is not going to do anything good, it's going to make things worse. If I were President of the United States right now, I wouldn't have any problem with oil prices. As President of the United States, I would go directly to the governments of each of the oil-producing nations, and buy the oil directly—not from the middlemen. I would think the way the famous [Italian statesman and industrialist Enrico] Mattei thought, some years back, here in Italy. If you have the capacity to process the oil, you can process the oil. If you have the power of government, you can make sure the existing private facilities will process the oil for the government. And under those conditions, the prices of petroleum would be approximately those of a few years ago.

Where does a price rise come from? From mergers and

FIGURE 1  
**Weimar Hyperinflation in 1923: Wholesale Prices (1913 = 1)**

(logarithmic scale)



acquisitions, and from derivatives. The flood of inflationary money into leveraged takeovers of oil and other firms, has resulted in an added cost per barrel on financial charges—not on the price of actually producing the petroleum. What you're doing is, when you're paying for a barrel of oil, you're not paying for the cost of the production and distribution of the barrel of oil, you're paying also a tribute to the speculators

who have added their investment, as a cost, on top of every foreign barrel of oil which they deliver. You have a rise in the price of gold under similar pressures. You have a speculative escalation of real estate prices in many parts of the world, for the same reasons. We will very soon be in inflationary rates of 5-6% and rising in most commodity prices. The commodity price inflation will tend to follow the same kind of path that the inflation in Germany followed in March to November 1923, mostly on a world scale. If we submit to that price inflation without bankrupting the financial system, we will unleash the equivalent of a New Dark Age on the planet.

So, the obvious thing comes up. If I, as President, were to buy oil the way I indicated—the Mattei way—then this would collapse and bankrupt most of the petroleum companies today. Because what I would be doing is bypassing the margin of payment which is attributable to their investment, financial investment, in debt.

### The Standpoint of Physical Systems

Now, this comes to the question of what's the alternative. Yes, we could have a New Bretton Woods, it could work, but what are the mechanisms which will determine whether it's successful? The world economy today is not an economy. It's lunacy! It's pure speculation. It's a John Law bubble. It's a tulip bubble from the Seventeenth-Century Netherlands. It is investing in the profits of speculation, not the profits of enterprise. So, we've got to get back to thinking about economies, not in terms of financial systems, but thinking of financial systems from the standpoint of physical, economic systems. The idea that profit comes from financial trade, must be abandoned. It's immoral. We must define profit, not in terms of financial profit. Because whatever happens, the present financial system will cease to exist. Some people will be very happy, because finally there will be a *tabula rasa*, where there was once a financial system. It's the only *tabula rasa* which is ever likely to exist.

What do we start with? We start with *man*.

What is economy? It's not financial systems. Governments can create and destroy, eliminate financial systems overnight, by an act of will. The government makes the appropriate law, and the financial system disappears. The government makes a new law, and a new financial system comes into being. We did something similar at the end of World War II. We eliminated whole currencies, and started new ones. We wiped out whole financial systems, and created new ones—in that case, for Europe and the United States, up until 1966, that was pretty successful. Soon, we are going to have to do that again—very soon. You have to set new rules, new monetary and financial rules, and it will work. But, what makes it work?

Real economy starts with man. Now, contrary to some pagans, man is different than animals. Man is the only creature which is able to change its power in and over the universe, by

will. No other species can do that. Only the human individual mind can do that. We call this human reason. Progress of humanity has always depended on discoveries which always are made by individual minds—discoveries of universal principle. These discoveries have been re-experienced and shared by other human beings. By discovering and validating new principles, we increase man's power, per capita, in the universe. Therefore, by increasing man's power over nature, through the discovery and transmission and cooperation in the practice of these ideas, man is able to improve his condition on this planet and in the universe.

### The Modern Nation-State

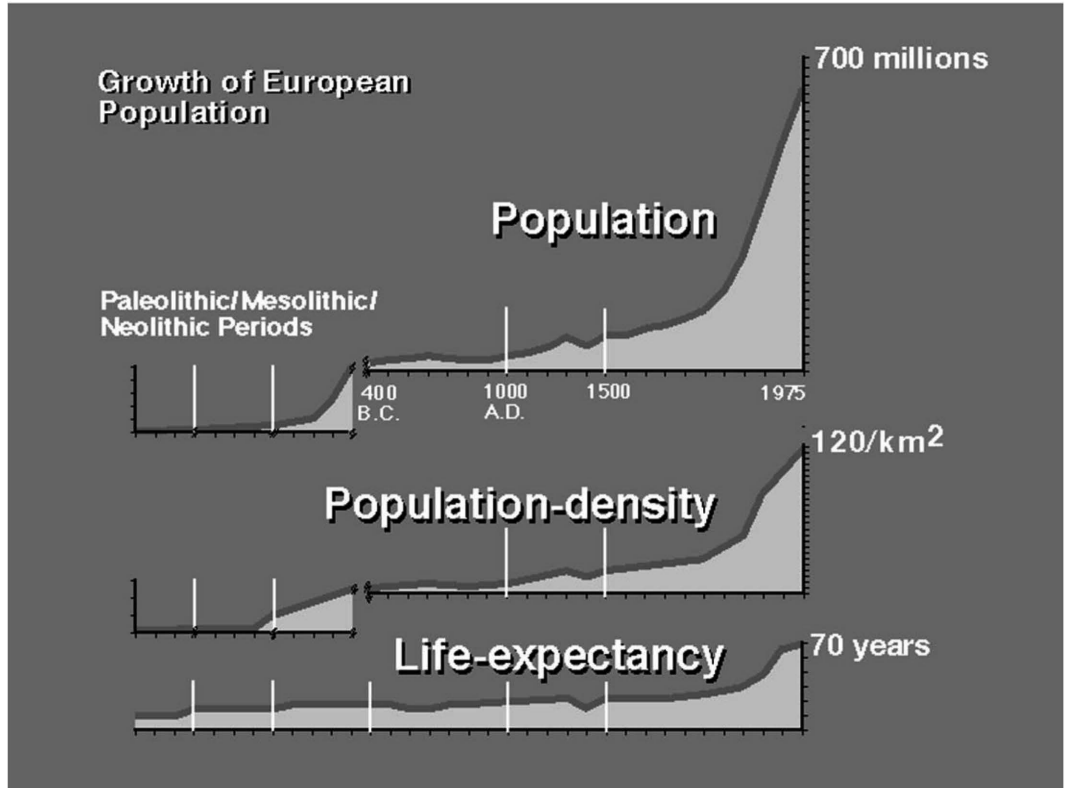
The specific genius of modern European civilization, as extended to a large degree throughout the planet, is expressed by a curve of rising population density and standard of living which began in Italy in the Fifteenth Century. From Italy it went to France under Louis XI. Louis XI established the first modern European nation-state. He created modern France, because he adopted the principle which we call in English, the general welfare, which is called otherwise in English, the commonwealth. He accepted the principle, and introduced that there is no form of government which has moral legitimacy under natural law, except governments which are efficiently committed to promoting the general welfare of all of the people and their posterity—the example of the success of Louis XI, who doubled the national income of France, physical income, during his 20-odd years of rule. It was copied in England, where they eliminated the Wars of the Roses under Henry VII, and introduced the great Erasmian reforms in England in that period, which were based on the same principles.

Since that time in Europe, the tradition of the legacy of the Italian Renaissance, and its effects on England and France and elsewhere, inspired people to believe that it was possible for the state to perform this kind of function. Instead of a few people, as an oligarchy, controlling many people, as human cattle, now the state becomes responsible for the welfare, the improvement of the condition of life and development of each individual person. When it became difficult for Europeans committed to this principle to realize this form of state in Europe, they placed increasing emphasis on the promotion of new republics of this form in the Americas, both South America and North America. The United States was created by the 1776 Declaration of Independence, based on these principles, as expressed in the first three paragraphs of the Declaration of Independence. If we look at a very simple test, the growth of population, the improvement of demographic conditions of life, per person and per square kilometer of area, since the Fifteenth Century, this is the greatest revolution in human progress in all known human existence [Figure 2].

Thus, if the nation-state, and cooperating nations, are committed to this principle of promoting and realizing the discovery of new physical principles and their application,

FIGURE 2

**European Population Growth and Life-Expectancy**



there is no limit to the improvement of the human condition.

In every society so organized, each individual person is recognizable as an immortal personality, as well as a mortal being, because the ideas, the discoveries of principle which are the power of human beings, which make man in the likeness of the Creator, are thus not only present, but are expressed in the individual personality and the individual personality's relationship to not only presently living people, but also to the past and to the future. This applies not only to the history of scientific discovery, it applies to Classical artistic principles. It is through Classical artistic principles, and the improvement of language to reflect the benefit of Classical principles, that the ability of human beings to cooperate and to improve their cooperation in an effective way, becomes possible.

**A Naturally Cooperative Relationship**

Profit, therefore, in physical terms, is a commitment to a margin of net improvement in man's power in and over the universe, for this benefit, for the general welfare. In the American System, as defined by Benjamin Franklin, and Hamilton, and people like that—Lincoln, and I—there's no such thing as a "state enterprise" or a "private enterprise." Rather, there is a cooperative relationship, a naturally cooperative relationship between true private entrepreneurs and states which provide basic economic infrastructure. The responsibility of the

state for the general welfare, means the state must take care of all of the people and all of the land area. And, no individual enterprise or consort of individual enterprises is capable of such a function. The management of land and water, the improvement of schools and health systems and things of that sort, are the moral responsibility of the state, and cannot be seconded out to merely private enterprises. The function of the private enterprise is to promote the general welfare through the ingenuity of the private entrepreneur. The scientist-engineer who owns a firm, who makes an improvement; the farmer who improves the methods of agriculture, and so forth—this is the proper area of private enterprise. The state cannot privatize its responsibility for the general infrastructure. It would be immoral to do so. Privatization of that form is intrinsically immoral, as a matter of natural law.

However, to the same degree, the government must protect the opportunities of the entrepreneur to make a true entrepreneurial contribution to the general welfare. Among the things which are most important for the public area, is the promotion of the quality of education, which promotes Classical culture, Classical cultural conceptions in language, and Classical science, and commits the society to base its hope on improved prosperity on the benefits of using Classical culture's influence on the cooperation among persons in order to promote scientific and technological progress, per capita

and per square kilometer of land area. That is the proper moral function of the state.

Now, I'll come to my concluding point.

### **Emergency Action**

Since we have to make an emergency decision soon, and since we must convince many people to support those decisions, we must keep our radical changes to a limited amount. At leisure we can make other improvements later, but the form of the emergency action to be taken on short notice must be relatively simple and clear. Therefore, the best model we have available that's appropriate, that people know about, is the example of what was done by Europe and the United States during the period from the close of the war into the middle of the 1960s. The system of fixed exchange rates and protectionism, which is characteristic of the period 1946 through 1958 in particular, is the model which is required as an emergency basis for the crisis we face today. The difference is, that today, unlike 1946, we must carry the policy to the degree that President Franklin Roosevelt had intended for the postwar period, before he died. Which comes back again to the Jubilee question.

President Roosevelt had intended, as he warned Churchill, that at the end of the war, the United States would use its power to ensure that there was the instant dissolution of all colonial systems: Portuguese, Dutch, British, and French. When Roosevelt died, London's 10 Downing Street took over U.S. foreign policy. This process was completed before Roosevelt was in his grave. This time, we must do what we did in 1945-1946 on monetary reform to rebuild a war-torn, ruined planet. This time, we must create a just world economic order, as Roosevelt had intended.

This means that groups of developing nations must have equal authority in the revised monetary system. This is not merely a matter of formalities of law. The issue here is, the world is now in a very dangerous situation, demographically. Presently, the planet—as in India, as in China, as in Southeast Asia, as in Africa, and so forth—we have a war-torn, strife-torn, impoverished world, in which nations presently are not able to sustain acceptable qualities of life for the individuals who are now living.

For example, take the question of Middle East peace, which is now in jeopardy. Now, there can be no peace in the Middle East, because there's not enough water available for everyone. A decent standard of life does not exist in the Middle East unless there's adequate water. The water does not presently exist, and will not exist. But nonetheless, we in the advanced nations have the technology to enable the Middle East to produce fresh water in sufficient quantities, and quality, to meet not only the needs of the present population, but to transform the desert gradually into a prosperous area of growth—as in the Mezzogiorno, or in central Sicily. Sicily was once a very prosperous area. We have the technology and know-how to do it again: bring back a semi-desert area into a

prosperous area of agricultural habitation.

So, with the aid of the technology which we in the United States, Europe, and Japan, and to some degree the former Soviet Union, have, if we turn that technology and continued progress into an engine of technological progress, we, of nations which were traditionally the more economically developed, can aid the nations which were more poorly developed, to develop true equality, through long-term credit, to provide them with our sale to them of the technology they need, without which they can not meet the requirements of their own populations. This is true in the western area of China, this is true in India today, this is true in Africa, it's true in the Middle East and elsewhere. Therefore, we must have a twofold, sim-

ple policy for emergency action. Other improvements can come once we have started on the emergency action. Then, the parliamentarians can have time to discuss those things.

But, we must have immediate executive action to deal with this crisis. There are two things: the question of the form of the reorganization, the emergency reorganization—the experience of the United States and Europe from 1945-1946 into 1958-1966 is a good example of what that must be, the form. But, it must include a just participation of the so-called developing nations, not just the so-called advanced ones. Secondly, we must accept a long-term mission, of at least 30 years to begin with. The new monetary and financial system of sovereign nation-states, must use the power of the nation-

state to generate on this planet a mass of tightly regulated credit, at low prices, with the purpose of extending credit of up to 30 years, for long-term infrastructure development, and in the short term for actual private entrepreneurial development, on a global scale. A global enterprise which means the promotion of scientific progress, at an accelerated rate. And also, the transformation of this planet, so that the discrepancy, the moral discrepancy, between the poor of the world, and the nations which are more stably provided—that must end. We must bring global justice at last, if we wish to have a world in which there are sovereign nation-states which live at peace with one another, for the common benefit of all mankind. Thank you.