EIR Economics

WORLD MONETARY REFORM

Regional Organization under a New Bretton Woods

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Despite the hysterical efforts of the U.S. President's Working Group on Financial Markets ("the Plunge Protection Team"), the world's present financial system is already in the last phase of a terminal collapse. Only lunatics, and other desperate fools, such as U.S. Treasury Secretary Larry Summers, are still hoping to keep that system from collapse. All of the world's intelligent and well-informed government officials, leading bankers, and economists, are preparing for the kind of world which will come into existence, very soon, after the present IMF system has been wiped out.

As I have warned, repeatedly, no one can predict the exact hour of the day the present system's bankruptcy will be made official. Since the fateful blunders of the October 1998 Washington monetary conference, the system as a whole has entered fully into its terminal phase of collapse. Exactly how it will collapse—whether by deflationary chain-reaction, by hyperinflationary explosion, or by being placed in bankruptcy-reorganization by governments—is a "Utah death-sentence" style of choice, still to be made by relevant governments;[1] but the collapse is now inevitable, and will occur soon—very soon, perhaps before November, perhaps before the August U.S. Democratic Party nominating convention. Really intelligent people, around the world, are treating that oncoming collapse virtually as if it had already occurred. This is the time for all intelligent monetary systems to dictate their bequests to their prospective heirs. What remains chiefly in doubt, is whether or not the post-crash governments will be able, or willing, to honor such a last will and testament of what is presently the already doomed system.

As of September 1998, it would have still been possible, although admittedly difficult, for U.S. President William Clinton to have brought about a comprehensive reorganization of the existing International Monetary Fund. In the aftermath of the October 1998 Washington conference, especially after decisions on the Brazil crisis of February 1999, that approach to monetary reform had been virtually destroyed, by the Clinton Administration itself. Now, the establishment of the urgently needed, new international monetary system, were more likely to be built up from a combination of regional groupings, such as the proposed ASEAN-Plus-Three association aired at a recent Chiang Mai, Thailand meeting, or not at all.

In the situation defined by the presently inevitable early disintegration of the current international financial system, the imperative of even simply national economic survival, requires cooperation among the relatively most interdependent regional trading blocs. The maintenance of even the barest essentials of trade-cooperation, requires treaty-facili-

1. Formerly, under a famous, then-standing Utah law, a convict condemned to execution, was permitted to choose the method by which he would be killed.

ties of a sort needed to provide for short- to medium-term trade of some essential portions of hard-commodity traffic. The ASEAN-Plus-Three meeting, typifies the lines of cooperation which are urgently wanted in various regions of the world.

The case of the Chiang Mai meeting, and its revived deliberation on the 1997 proposal for an Asian Monetary Fund, reflects the specific form of political hysteria caused by the desperate actions of the U.S. "Plunge Protection Committee." In the effort to postpone the inevitable global financial crash until after the U.S. general election of November 2000, at least until the Democratic Party Convention of August, the U.S. launched predatory actions against both Japan and the continental European currency-bloc, the Euro. The points of vulnerability focussed upon by the Plunge Protection Committee, were the respective "Yen carry-trade" and "Euro carry-trade."

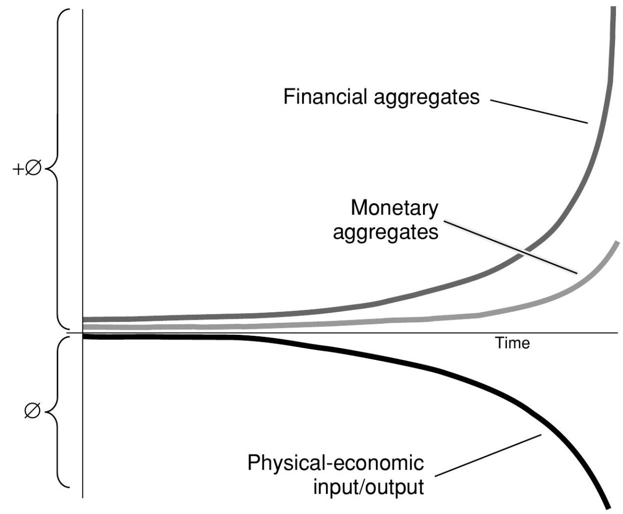
Thus, the hysteria of the Gore-campaign-dominated Clinton Administration, came very close to breaking the quarter-century-long "Trilateral" arrangement of 1975, among Wall Street, Tokyo, and continental European finance. This Gore-prompted savagery against Wall Street's crucial Tokyo and European monetary partners, represented a threat of an irreparable break among the leading elements of the present world monetary system. Although neither China nor Japan was then prepared to risk an open break with the U.S., the question was posed. The mood at the Chiang Mai meeting, is to be regarded as a relatively mild warning-shock, a warning of a likely, oncoming political form of the major monetary earthquake, a warning of the threatened break-up of the existing IMF-dominated system.

The Rope in the House . . .

The most dangerous implication of the onrushing world financial collapse, is the continued unwillingness of the U.S. government to face this reality of the situation. In Washington, D.C., it appears to be the rule, that "one does not mention the rope in the house of the hanged." The President apparently hopes, against all evidence of past performance, that a President Al Gore would honor a commitment to defend an ex-President Clinton from the murderous Bush machine. However, even if Gore were the honorable man he is not, there is virtually no chance that an Al Gore could be elected President after a pre-November 2000 global financial collapse, nor that the U.S. could survive for long under a President George W. Bush. So, when Gore enters the room, the band strikes up the Nashville, Tennessee ditty, "Born to Lose," whereas the President were appropriately greeted by a ditty entitled, "Tell Me It Isn't So."

Among people who desperately need to convince themselves that they are behaving rationally, purely arbitrary blind faith in a delusion, is not sufficiently reassuring. To make their delusions appear credible, they require a rationale or

FIGURE 1
A typical collapse function



two. Since President Clinton, unlike his Vice-President, is an intelligent, rational person, his clinging to his current officially proclaimed delusion about the world economy, demands the typically Baby-Boomer style in pseudo-rational doctrines, the "Third Way" and "New Economy." It also demands a third sort of reassurance, the belief that the majority of popular opinion still shares his delusion. The best way to avoid thinking about the rope, is to accept the delusion that it does not exist. If customary fools, popular opinion, share that delusion, so much happier the wishful thinker will be—for at least a moment or two longer.

Start from the reality of the present world financial situation. Then, pin-point the delusion which prevents a President Clinton—and many others—from seeing the reality they desperately wish to deny. Start with the reality of the Triple Curve, and also the reality of the fact that the world financial system is, at this moment, in the midst of a hyperinflationary spiral like that of Germany 1923. Then, examine President Clinton's expressed belief in the delusion of a "new economy;" look at this delusion in light of the global financial reality which the President has refused to face—since no later than October 1998.

Look at two versions of the Triple Curve. The first, is the general version which I first presented in graphic form in the setting of a Vatican conference of Autumn 1995 (**Figure 1**). Then zoom in on a close-up of the area of the same curve at a critical point, the point at which the rate of monetary expansion rises more rapidly than the rate of financial expansion (**Figure 2**). The latter is the condition into which Germany had entered over the interval March-October 1923. The latter is the phase at which the rate of

FIGURE 2A
The Collapse Reaches a Critical Point of Instability

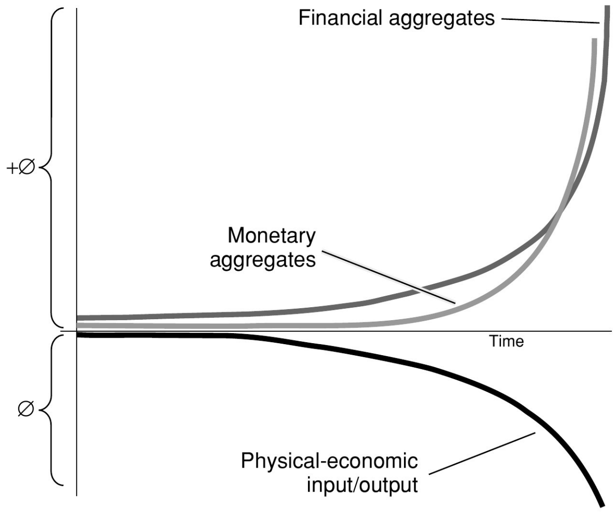
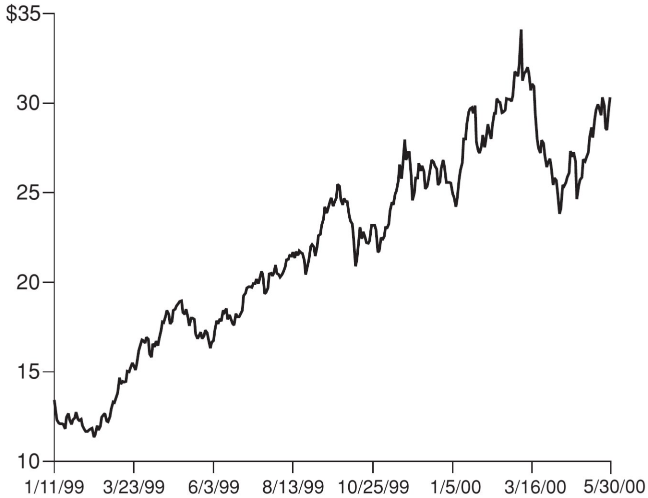


FIGURE 2B
Crude Oil Price, West Texas Intermediate, 1999 to Present

(per barrel)



Source: *Wall Street Journal.*

The steep rise in the price of a barrel of oil reflects the trend indicated by Figure 2a. The inflation of the financial assets, through junk-bond-style mergers and acquisitions, creates an aggrandized financial asset per barrel of oil. This financial asset now requires an increased apparent financial profit-margin-yield per barrel of oil. Since that increase requires a corresponding added margin of financial asset appreciation, the growth of required debt-service payments (e.g., nominal profit) per barrel of oil now zooms geometrically, according to the price-earnings ratio needed to maintain that skyrocketing per-barrel financial-asset price on the market.

hyperinflationary spiral of financial assets, itself fed by wild-eyed monetary expansion, erupts as an accelerating form of hyperinflation of commodity prices. The latter is the point recently reached, a point comparable to Germany of March-April 1923 (**Figure 3**).

This situation is comparable, in the domain of mathematical physics, to the Riemann shock-wave "front" which Riemann defined in his "The Propagation of Plane Air Waves of Finite Magnitude" (**Figure 4**).[2] The transition from the general pattern shown in **Figure 1,** to the local condition shown in **Figure 2,** is analogous to that shown by the Riemann shock-front of **Figure 4.** The March-October 1923 development in Germany, as depicted by **Figure 3,** is comparable.

Look at this in terms of the price of a barrel of petroleum.

To understand this comparison, make a distinction between the physical costs of production and distribution, including the direct costs of administration of the processes of production and physical distribution, and the additional costs added to prices by inflation of the financial-capital nominally invested in title to ownership of that entity. Typical are the current financial charges incurred by mergers and acquisitions of entities producing, processing, and distributing petroleum and petroleum products. Then, examine the rising portion of total price per barrel represented by the purely financial charges which mergers and acquisitions add per barrel produced and distributed.

Look at similar patterns of financially-driven inflation in areas such as real estate, and primary materials generally.

In such cases of combined "privatization" and mergers and acquisitions generally, one must recognize the fact that a hyperinflationary expansion of total financial accumulations, leads, by a significant factor of delay, toward a self-feeding inflation in the amount of tax which mergers and acquisitions superimpose on each barrel of oil, etc. At the point, this factor of increase of gross price greatly exceeds the underlying, physically-incurred costs of production, distribution, and management, a hyperinflationary expansion of gross financial capital, explodes as an emerging and generalized commodity-price inflation.

Thus, during 1997-1998, the world financial system entered the terminal phase of its existence. As of October 1998, this assumed the form of a general hyperinflationary growth in monetary expansion. Approximately the close of 1999, the general hyperinflationary trend began to assume the form of a self-feeding trend toward the eruption of commodity-price

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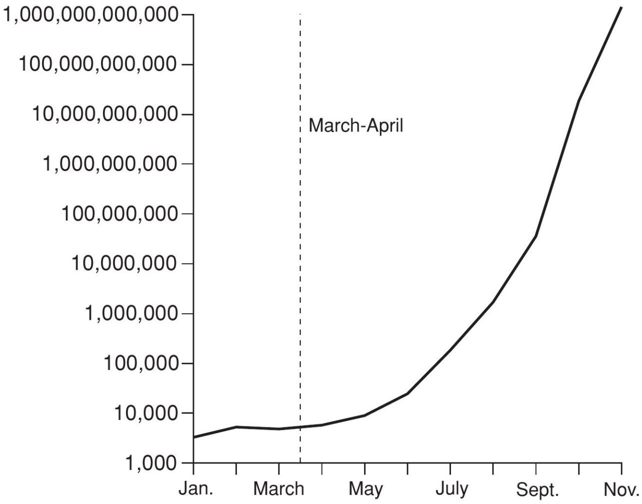
2. *Über die Fortpflanzung ebener Luftwellen von endlicher Schwingungsweite,* "On The Propagation of Plane Air Waves of Finite Magnitude," ***Bernhard Riemanns gesammelte Mathematische Werke,*** H. Weber, ed. (New York: Dover Publications reprint, 1953).

FIGURE 3
Weimar Hyperinflation, Wholesale Price Index (1913 = 1), March-November 1923
Logarithmic scale



inflation. While we can not, presently, determine the way in which the March-October 1923 Weimar Germany process compares, in scale, to the presently emerging global hyperinflationary trend in key commodity prices, the fact that a comparison is to be made, is already sufficient evidence on which to base the most crucial observation; the world is entering the shock-front phase of a general post-1997-1998 global hyperinflation in nominal valuations of financial assets.

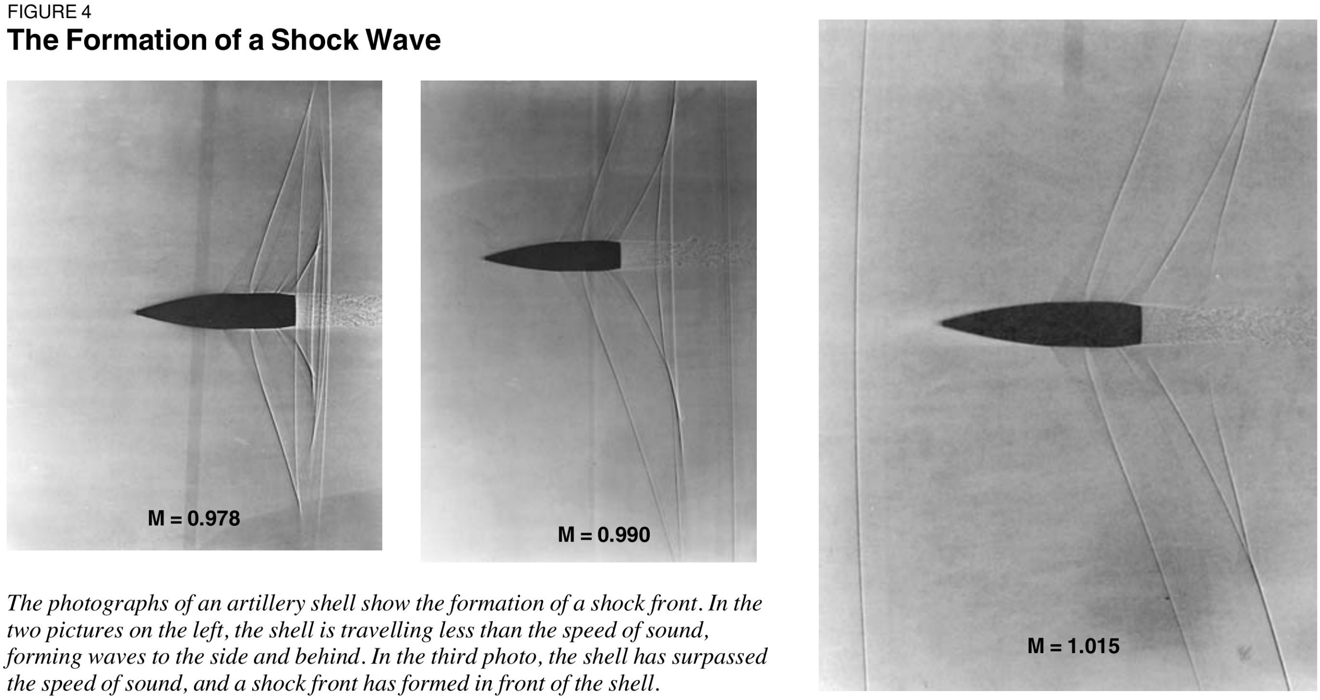
The present financial system as a whole is hopelessly bankrupt. There is no way in which present financial obligations outstanding could be paid. Over-the-counter derivatives must be the first to go, followed immediately by other forms of derivatives and junk-bond indebtedness. In addition, long-term debt generally, must be frozen and rescheduled at nearly zero-interest rates. Other financial assets, such as personal saving accounts and pensions, must be maintained as currently liquid, but only as is required to optimize social stability of family households and employers.

The world requires a new monetary and financial system, rebuilt from the ground-level of expanded present levels of physical output measured in quantities of employment and output in production of physical goods of newly produced infrastructure, agriculture, and manufacturing. A sudden and sweeping cancellation of all changes in monetary, financial, and economic policies since August 1971, is mandatory.

President Clinton's Delusion

The delusion which President Clinton has shared publicly with his unfortunate choice of Vice-President, Al Gore (and many others of the Baby-Boomer class), is the interchangeable notion of what is called either "the new economy" or an "information society." The political-cultural connections underlying that delusion, are multifarious. The common root

FIGURE 4
The Formation of a Shock Wave



The photographs of an artillery shell show the formation of a shock front. In the two pictures on the left, the shell is travelling less than the speed of sound, forming waves to the side and behind. In the third photo, the shell has surpassed the speed of sound, and a shock front has formed in front of the shell.

Source for artillery shell photos: A.C. Charters in T. von Kármán, 1947, *J. Aeronaut. Sci.,* 14:373-402.

is an utopian delusion, typified by the collaboration of H.G. Wells and Bertrand Russell, a delusion associated with Russell's public endorsement of Wells' ***The Open Conspiracy.***[3] As current U.S. Secretary of State Madeleine Albright bragged, in her Oct. 14, 1999 New York address, she has been an active follower of the ideology of Wells' ***The Open Conspiracy,*** in her entire career, including her official Cabinet roles as UNO Ambassador and Secretary of State. The principal delusions shared between Mrs. Albright and Al Gore, have their proximate origin in that "Open Conspiracy," as defined by Wells and Russell.

The principal categories to be considered are: "globalization," as defined by the practices of Clinton, Gore, Albright, and London's Tony Blair—with some equivocations by Clinton; "information theory," a concoction of Russell's devotees Norbert Wiener and John von Neumann; and the Wellsian doctrine of post-Morloch ("post-industrial") society, as advocated by Gore, under the rubric of "ecology,"[4] and by both Clinton and Gore, under the rubric of opposition to "dual use" forms of alleged "weapons of mass destruction." All of this, of course, is consistent with the neo-Confederacy Romanticism of Robert Penn Warren's and William Yandell Elliot's Nashville Agrarian hatred against the American Whig legacy of President Abraham Lincoln. Henry Kissinger's and Zbigniew Brzezinski's character as protégés of Nashville Agrarian Elliot coincides with Vice-President Gore's expressed ideological bent on such accounts.

From the founding of the U.S. republic, the American System of political-economy, and its sundry European and other admirers and imitators, have been, like Alexander Hamilton, Abraham Lincoln, Franklin Roosevelt, at al., followers of the science of physical economy as defined by Gottfried Leibniz. Indeed, the related notions of France's King Louis XI and England's Henry VII, in founding the modern nation-state economy on the principle of the general welfare, or commonwealth, reflect the same commitment of all modern rational political-economy, to the principle that the general welfare requires a constant increase of mankind's power in and over nature, as measurable, physically, in per-capita and per-square-kilometer terms. This increase has always depended upon those improvements in applied technology which are derived from validatable discoveries of universal principle.

The notion of "information," as defined axiomatically, mathematically, by Russell devotees Norbert Wiener and John von Neumann, excludes the existence of discoverable universal physical principles, just as their master Russell did. "Information theory" reduces society, axiomatically, to the administration of man by man, or, in other words, the reduction of society to the mangement of a mass of virtual cattle by an oligarchical minority and its attending lackeys. The mentality is that of those shipmasters who improved the unsinkable and doomed *Titanic,* by reducing the number of lifeboats far below the quantity needed to accommodate the ship's passengers and crew—a fact which is, indeed, something to remember.

Thus, the notion of economy in the mind of Al Gore, and implicitly the doctrine adopted by President Clinton, is something out of Tolkien's Baby-Boomer's fantasy, ***The Lord of the Rings.*** For that doctrine, real economy does not exist, only rearrangements of the seating-arrangements at the dining table (as long as seats are still available), thus, as by current U.S. health policies, following Adolf Hitler's health and welfare policies, of shortening lives deemed "unworthy to be lived." Such are the implications of the Vice-President's statements and practices on education and health policy—as, ostensibly, endorsed by the President, policies which have contributed to a state of affairs under which approximately half our current eighth-graders are virtual Yahoos, illiterates. Today, under such influences, a majority of maturing adolescents would not be employable at family-income-level wages, in the industries and related work-places of the 1960s!

Granted, there are various hints that President Clinton does not believe such nonsense—at least, not privately. However, publicly, especially since mid-1996, the President has acted is if he believed he were obliged to pretend to believe such Gore-y nonsense, that as a precondition for outliving both his incumbency and retirement as President.

There is a simple political correlative to this delusion. Of the upper twenty percent of today's family-income brackets, representing more than half the total national income, at least half, probably more, are virtually economic parasites, living off the back of the eighty percentile of the lower income-brackets. Such types from the so-called "new suburban" class, are the principal voter-support for the candidacies of both George W. Bush and Al Gore. This same upper-twenty-percentile stratum, is also the hard core of what Gore and his ally Dick Morris, like England's Tony Blair, have defined as the "middle," those who are depended upon as likely to vote in state-wide and national elections. This upper twenty-percentile thus represents the stratum of "public opinion" perceived by the pollsters, and by most of the mass entertainment and news media.

In effect, whatever the President's actual views, he has locked himself into a public posture of basing the conclusion of his Presidency, and his personal survival thereafter, on the prospect of benefits from the election of sure-loser Al Gore. He has sought to secure his long-term position in history, by a shallow, pragmatic reliance upon short-term, largely illusory estimates of momentarily popular delusions.

3. H.G. Wells, ***The Open Conspiracy: Blueprints For A World Revolution*** (London: Victor Gollancz, 1928).

4. Albert Gore, Jr., ***Earth in the Balance: Ecology and the Human Spirit,*** 2nd edition (New York: Houghton Mifflin, 2000).

Last days of Pompeii, anyone?

Once we take into account, that the existence of nations, and most of their populations, depend upon the continuation and growth of such physical output as infrastructure, food, and manufactured items, the failure to base assessments of the performance of economies upon anything but the rate of physical consumption and output, per capita and per square kilometer, is effectively lunacy, a wild-eyed delusion.

The Day Money Vanishes

If we except the third alternative—my alternative, a New Bretton Woods system, then we must see the U.S.A., in particular, as headed toward the early day, when money has ceased to exist, as in 1923 Germany, or in which only a tiny fraction of current levels has survived a crushing deflationary depression, worse than 1929-1931. What do you do then, Little Man? Where are all those popular opinions you expressed so lavishly until now?

What do you need, then, Little Man?

You need basic economic infrastructure: transportation, power, water management, sanitation, and also schools, medical facilities, and kindred public facilities and services. You need food, which must be produced and delivered. You need manufactured items, physically distributed to where they are needed. You need places of employment, especially in the production and maintenance of basic economic infrastructure, agriculture, and manufacturing. If you do not have these things, then, of what use is money?

If, however, we can secure the production of such required materials and conditions, and if the physical cost of that production and maintenance is less than what is delivered, can we not issue sufficient currency, and lend it through banking channels, to ensure the continuation and growth of such physical output? In other words, even if money were wiped out by a hyperinflationary explosion, we can survive quite nicely, if the physical conditions of infrastructure, agriculture, manufacturing, and related employment are available. If those conditions of growth—as measured in physical terms—can be met, then government can generate and supply the state credit, as in the form of issues of lendable governmental currency-notes, to sustain those physical preconditions of continued economic growth.

In light of the nature of the present global division of labor in the production of these physical conditions of economy, it should be obvious, that agreements on trade among nations are an essential feature of any successful recovery effort. It should also be clear, that regional cooperation has pre-eminent importance. Then, those facts taken into account, the crucial added requirement, is cooperation among nations which are leading exporters of capital forms of improved production technology, and sections of the world which are naturally the principal medium- to long-term importers of such technology.

To that end, we require a system of stable, relatively fixed exchange-rates among currencies: otherwise, medium- to long-term loans are too costly. We require, also, a system of protectionist agreements, by means of which national industries are protected against cheap imports, and also against the state of pauperdom to which "free trade" condemns exporting nations.

The net result is, that the optimal form for a new global monetary system is one modelled on the best features of the 1945-1958 Bretton Woods relations between North America, Europe, Japan, Australia, et al. A fixed-exchange-rate, pro-protectionist system. A more or less global monetary facility should coordinate among regional and cross-regional partnerships, as the case for an Asian Monetary Fund typifies such lines of partnership.

Optimal would be a system including the following keystone elements. A continental European partnership. A trans-Eurasian system of cooperation including Russia, China, India, Japan, and the ASEAN group. An Ibero-American group. A Middle-East/North Africa group. A Sub-Sahara development association. A general system of collaboration among the U.S.A., continental Europe, a trans-Eurasia group, et al.

The sovereign member-states of the new global system would be parties to their regional associations, and also represented in the global system through these regional associations. That political-economic structure, echoing the post-war intentions of President Franklin Roosevelt, should take over the bankrupt remains of presently existing international monetary and related institutions, and conduct both the processes of bankruptcy-reorganization of the present world system, and the launching and direction of the new one.

The problem to be emphasized, is the following.

When three powers of the four-power authority occupying Germany—Thatcher's Britain, Mitterrand's France, and George Bush's U.S.A.—acted, during 1989-1992, to impose, upon both Germany and the world, a caricature of the Roman Empire, as a ruling, Anglo-American imperium upon the world at large, a situation developed, over the course of the recent decade, in which the world had wasted the great opportunity represented by the events of 1989. The good will which might have been mustered, among former "Cold War" adversaries, the NATO powers, and the developing sector generally, has been greatly dissipated over the course of the recent decade. The most recent folly of the U.S. government, in pitting itself against the vital existential interests of both Japan and continental Europe, for sake of that worthless enterprise known as the Al Gore Presidential pre-candidacy, leaves the world no likely option, but reliance upon developing cooperation among regional blocs as the means for bankrupting and replacing the existing world monetary and financial systems.