

## Editorial

# *If Dollar Goes, It's the System at Risk*

From IMF headquarters, to Moscow, to Singapore, the word is out that the almighty U.S. dollar, as it is proverbially called, is going into the tank. What is not yet clear is whether many of the commentators on these matters understand what a dollar crash will mean: the bankruptcy of the entire world financial system.

In August 2000, two economists at the Federal Reserve's yearly Jackson Hole meeting had already projected a collapse in the dollar's value by 50%. Maurice Obstfeld and Kenneth Rogoff argued in an extensive paper that the huge current account deficit of the United States—which amounted to over \$450 billion in 2000—left the U.S. vulnerable to a pullout of capital, which could be caused by a sharp downturn in the U.S. economy.

That downturn—which *EIR* founder Lyndon LaRouche is just about the only prominent figure in the world to have named, honestly, as a depression—is in process. And the dollar, which has been backed primarily by the political—if not military—power of the U.S. government, has begun to see an outflow of capital, which is quickening. The dollar has, until now, been held up by a \$500 billion-a-year *inflow* of capital, so a very strong tidal shift is under way.

This outflow has been signalled in some of the European press, but is now becoming more generally known. A London financial source told *EIR* on Aug. 15 that Japanese investors are no longer reinvesting the proceeds of their investments in the United States, but taking the money home. The Danish paper *Borsen* implied that similar moves were happening with European investors. And there's no arguing with the fact that the dollar has gone down at least 9% against the euro over the past months. It is also going down against the yen.

There will be idiots, of course, who will respond to this development by talking about “competitive advantage.” This has been the line of certain European investors, and, from the other side, U.S. manufacturing interests. The latter are arguing that the dollar *should* be collapsed, in an effort to expand U.S. exports abroad,

while some Europeans are deluded enough to think that a weakened dollar will help their stillborn common currency. And then there's Treasury Secretary Paul O'Neill, who is constantly beating his chest about the need to keep a “strong dollar.”

The truth is, that a dramatic collapse in the dollar's value presages the collapse of the entire world financial system, already rotten to the core, and utterly bankrupt. Ninety percent of all transactions in the world are denominated in dollars. As the Singapore *Business Times*, the leading financial daily of Southeast Asia, said in its lead editorial on Aug. 16, every country which is hooked into the “floating exchange-rate regime”—which means most nations in the world—will be devastated by a dollar collapse. That development will call the question on what is actually required—the establishment of a new international financial system, which bans currency speculation, and promotes a new credit regime which funds long-term investment in production instead.

What that means is that the implementation of LaRouche's New Bretton Woods system will be the only feasible means of survival for the world economy.

It is not at all clear that world leaders are ready to take such a step yet. They had better hope that Prof. Tatyana Koryagina, the Russian economist who has come out front and forecast a dollar blowout to occur around Aug. 19, is not correct. Koryagina, who accurately forecast the Russian bond market blowout in 1998, has taken lead headlines in the Russian press with her dramatic statements about the impending development.

Lyndon LaRouche has resisted pressure to forecast such a dollar collapse on any particular date. He has concentrated on getting across the message that this is a *systemic* crisis, in which the dollar system cannot be saved, and an alternative based on the best aspects of the old Bretton Woods system must be found. His forecast is already confirmed; the dollar collapse is under way. What's important is to focus on the political steps toward creating the alternative system.