

# Only a New Financial System Will Save the World's Bankrupt Nations

*On Aug. 2, LaRouche addressed a videoconference sponsored by the National Institute of Public Accountants at the Service of the State (INCOPSE), in Mexico City. This is his opening presentation, with subheadings added.*

A few days ago, the leading newspaper of Switzerland, *Neue Zürcher Zeitung*, published a report, an analysis of the situation in Argentina, and the conclusion of the article was, that Argentina's only hope was a debt moratorium; that the present proposals and schemes would not work. That's the nature of the situation. That view was picked up by some other European press and leading commentators, analysts, after that.

Now, that is not only the situation in Argentina—which continues despite the temporary agreement which will not work. It's the situation in Brazil, in general, in Turkey and Poland, and many other countries in the world. The world today is not on the edge of a depression. We are already *in* it!

The problem is this: When you enter a depression, you enter a political crisis. Now, over the course of the years, especially the past decade, the world has been run by the United States and Britain, especially by some powerful financiers that are both in the United States and Britain. And therefore, people tend to look to the United States, as the largest individual nation-state power in the world, of value in dealing with any kind of international crisis. And certainly, a world depression—a breakdown of the present monetary and financial system—is a world crisis.

The problem is, that we have a President, and a Presidency in the United States, which does not function. Now, I wouldn't say that Bill Clinton's done an excellent job in handling the crisis that was coming on, under his term, but while Bill Clinton and Bob Rubin as Secretary of the Treasury were on board, the world thought that at least somebody in Washington would respond, and respond positively, if not successfully. What has happened since the new administration, since the last election of Nov. 7: The United States has been in a permanent political crisis. And the present administration has policies that will not work, that can not work, and only when we reach a point that those policies are changed; that is, when the present President of the United States changes his policy profile, then we can begin to expect a rational form of response to the crisis, from the United States.

Now, of course, the United States is not the only nation in the world. We have some very positive developments in other parts of the world: In the former Soviet Union, for example, in Russia. Russia has reached agreements with the nations of East and South Asia, increasing numbers of such agreements, which are very good agreements, that tend in the direction of cooperation among these states of Eurasia. Also in Western Europe—Italy and Germany, for example, and to some degree France, and other nations, are in discussions with Russia and with nations in the Far East and Southeast Asia, and so forth, in this direction. This is all very good.

Now, if some people were not going for war in the Middle East right now, maybe you would have nations like Egypt cooperate with the Eurasian development programs under way. These new programs could become the basis for a revival of the world economy.

## A Systemic Crisis

But we can not save the present world monetary system. The problem is this: The crisis we face is not a cyclical crisis. This is not a crisis like 1929-1931. This is a systemic crisis, that is, a breakdown of the system, which means that the system has reached the point, that to try to continue this system, to try to continue the world economy under this system, the world economy will simply break down. No recovery of the world economy or of any of the nations in it, will ever occur under the present monetary and financial system. A new system is required.

And that is precisely what the government of the United States at present, and some other governments of the world, are not yet ready to consider. We have in Italy, leading parliamentarians and others who have made motions in the direction of general debt reform and other positive reform. Other parts of the world are interested in these kinds of reform. We've had proposals from Japan for reform, with the Asian Monetary Fund, from Mr. Sakakibara, some years ago. That proposal is still active. We have proposals from Malaysia, and with much sympathy from China. We've had proposals from Korea, and so forth and so on.

So, there are proposals for change, there are proposals for cooperation, but there is as yet no agreement, among a sufficient number of governments, to decide to pull down and

put the present financial system, the present monetary system, into bankruptcy reorganization. Until that happens, the world is simply going to become worthless.

Now, this is not an impossible problem to deal with. In the beginning of the last century, before World War I, already numbers of leading economists were considering the hypothetical condition under which the entire financial system might break down. They called it a breakdown crisis, as distinct from what was called a cyclical crisis. And they thought about it, and there were various discussions.

### **The Breakdown of the Bretton Woods System**

Now, let's look back at what this crisis is, and how it began. Go back to the end of the last world war, when Franklin D. Roosevelt, at the Bretton Woods conference, had introduced proposals for global reform for the post-War period. Despite his death, many features of that program were configured as the post-war Bretton Woods System. They were continued in the Americas, to a large degree. They were continued in relations between the United States and Western Europe, and with Japan, and some other cases as well. During that period, from 1945 at the end of the war, until approximately the middle of the 1960s, the then-present monetary system worked. It worked fairly well. There were many injustices under it. There were many things wrong with it. Many countries suffered discrimination under it, but the system as whole worked, in the sense that, overall, the parts of the world involved in that system improved in their productivity, their standard of living, and their general expectations for life.

A change came about the same time that President Kennedy was assassinated, in 1963. That was the year in which Konrad Adenauer, the Chancellor of Germany, was told to take an early retirement. That was the year in which Harold Macmillan, the Prime Minister of the United Kingdom, was told to take a walk, with the Profumo scandal. That was the year of the first attempted assassination of President Charles de Gaulle of France. And after the assassination of Kennedy, and after the effects of the 1962 Cuba Missile Crisis, the world began to change, suddenly, for the worse. The change for the worse started about 1964, with the advent of the Harold Wilson government in England, which was almost—you might call it the Jimmy Carter government of England of the 1960s. He wrecked everything in sight.

At about the same time, the United States became involved in the useless and hopeless and worthless war in Indochina, which had effects on the overall system. In 1967, the world monetary system began to disintegrate, with the Harold Wilson government's revaluation of the pound sterling. The revaluation of the pound sterling in 1967 led to the crisis of the dollar in February and March of 1968.

During the same period, the United States began to change. Several changes occurred. You had the '68er phenomenon, which was in part a reaction to the Missile Crisis

and other changes, which had demoralized the up-and-coming post-war generation. But also, at the same time, there was a general deterioration in the economic process, and the political process. The campaign of Richard Nixon for President of the United States was a disaster, because Nixon introduced what was called the Southern Strategy.

Let me just explain briefly what that is, because it's important to understand the Southern Strategy, to understand many of the problems that arise in relations between the United States and the nations of South and Central America, and many of the problems today.

### **America's Two Opposed Traditions**

In the history of the United States, we have two basic tendencies: We can simplify these by Presidents. President Washington represents my tendency, what is called the American Intellectual Tradition of Benjamin Franklin. That same tendency was represented by President Monroe, by President John Quincy Adams, who at one point was Secretary of State, and later a Congressman. We had the continuation of the John Quincy Adams tradition with Abraham Lincoln, and the people of Mexico remember who Abraham Lincoln was, in terms of relations.

We also had Presidents who were on the other side. The other side was a group of bankers, usually tied to London, often centered in New York, typified by Aaron Burr, who was in fact a traitor to the United States, who once ran for President, having been the founder of the Bank of Manhattan. And the Aaron Burr tradition, together with the Southern slave-owning plantation owners, created what became known, in due course, as the Confederacy. This tendency was known in the United States as the American Tory Tradition, as Franklin Roosevelt described it during his second term of office as President.

Now, what Nixon represented was the American Tory Tradition, which was a change from the American Intellectual Tradition which John F. Kennedy represented, as did Franklin Roosevelt before him.

So under Nixon, we had the Southern Strategy: The Southern Strategy which went into motion in 1966, as part of Nixon's campaign for the Presidential election. It was an alliance of President Nixon personally, candidate Nixon at that time, with the Ku Klux Klan and similar kinds of racists, including Trent Lott, who later became Republican leader of the Senate. This tendency, together with a radically liberal tendency in economics—the so-called Milton Friedman model, the Friedrich von Hayek model that we have today—began to take over. The commitment to the development of infrastructure, the commitment to improvement of conditions of life of the poor, the promotion of freedom and betterment of social relations and rights, and relations to the nations in South and Central America, began to deteriorate at an accelerating rate, as Nixon moved on to become the President.

## **Nixon Sank Bretton Woods**

And then with Nixon, in 1971, sank the remains of the old Bretton Woods System, with his August 15, 1971 decision [to float the exchange rate]. And since that time, especially as you can see in Ibero-America, from Mexico on south to Cape Horn, there's been a systemic looting and destruction of the once-proud republics of the Americas to the south, the Spanish- and Portuguese-speaking republics. They ruined it, under the floating exchange-rate system. Currencies have been arbitrarily sunk by market speculation. Then the IMF and other such agencies come in and say: "Devalue your currency." So countries say, okay, we'll devalue our currencies. But then the IMF and these others come in and say, "But you must increase your debt obligations, to cover the potential losses to your creditors from devaluing your currencies." And therefore, you have a situation in South and Central America, under which South and Central America together, after 1971, have more than repaid everything they ever borrowed, or incurred as an obligation from the debts incurred up to this time.

But, they also now have a greater debt than ever before, because of the negative type of IMF arithmetic, and they lost under the floating-rate system, as opposed to the fixed-exchange rate system, which has caused this kind of crisis in this part of the world. You see this all over the world. A great injustice. We are no longer committed, as we were, to the improvement of the average physical conditions of life, to investment in basic economic infrastructure, to encouraging national sovereignty — that is, sovereign projects — to encouraging the development of high-technology industry, to improving trade, under protectionist kinds of conditions which are required for the growth of these countries.

So, we now have a system which is no longer based on building the productive powers of labor, and on building the productive powers of labor in terms of a population as a whole. And thus, gradually, as more and more financial speculation, and capital gains on financial speculation, replace the former system that worked, we have built up over approximately thirty-five years a system that does not work. That system is today collapsing. We have untold hundreds of trillions of dollars of debt obligations outstanding. We have a collapsing world economy. Collapsing industry, collapsing agriculture. We can never pay those debts, under presently scheduled conditions. Never. If we try to pay those debts, we will find that it will cost us more to pay the debts than we can possibly earn under the present conditions.

So, therefore, the world is bankrupt. I can tell you frankly, the central banking system of the United States is bankrupt. I've documented it. I won't go into the details. But the United States banking system is presently bankrupt. If you want to know why the United States sometimes behaves the way it does, that's one of the reasons. The banking system of Western Europe is bankrupt. The telecom speculation, the so-called "new economy" of speculation, has aggravated this beyond belief in Western Europe.

So therefore, we've come to a point that we have nations which we wish would function. We have collapsing employment in the United States. We have the beginnings of movement of financial capital out of the dollar and into Western Europe and Canada, because the United States is losing its position. Japan is bankrupt, the second largest monetary economy in the world. And around the world, virtually every nation in the world today, with the exception of China, is bankrupt.

## **We Need a Bankruptcy Reorganization**

Therefore, what we have to do — as many of you who are accountants and financial advisers would do if you had your druthers, as they say — is we have to put the system into bankruptcy reorganization, in the same way that we would put a bankrupt enterprise, which was of national importance, through bankruptcy reorganization. The same way you would take a bank which was essential to the national interest, and even if bankrupt, we would put it through bankruptcy reorganization and protection, to bring it back, as the kind of institution we need in the national interest. We will protect and restore national industries, which are essential for nations. We will protect and restore farmers, because food production is essential to nations. We will provide bankruptcy protection. And that's what we are going to have to do.

All of us who can calculate, and know economics, given the facts of the situation, must advise the world, in the same way we would advise a client in a private firm or private bank: "Look, you're bankrupt! Let's put you through bankruptcy reorganization, and save this enterprise through bankruptcy reorganization." We must do the same thing with nations. Do the same thing to the world monetary financial system. Put it through bankruptcy, for the purpose of saving the nations, of saving the human population. But then, when you say that today, somebody starts screaming — especially around governments — and saying, "You can't do that! People have their debts and creditors have their assets! You've got to pay them!" And you say, "Well, we can't pay them and keep the human race alive. What do you propose?" And they scream.

Now, there are a lot of people in the world, a surprising number — and I've talked to some of them — who would agree with me that this system requires bankruptcy reorganization. The problem is, how do we get it? How do we get bankruptcy reorganization? Well, what's going to have to happen is this: A number of us who are influential, whether we are in government or out of it, are going to have to meet and discuss this problem. And we're going to have to go step by step, in a professional way, through the measures that have to be taken to save these economies, and to save the world trade system. We have to save world trade, save the economies, save the nations — whatever it takes.

So, what are we going to have to do? Well, generally, we are going to recommend that we freeze the unpayable financial assets. And the second thing we're going to have to

do is ensure that present employment, especially essential employment, continues, that production continues, that pension obligations are met, that firms stay in business, that banks that are bankrupt will stay functioning, for the needs of the economy. And we're going to freeze everything else. We are then going to find a way to create a new mechanism of credit, through national governments and their cooperation, and we're going to pour credit into the system for highly specified purposes.

## 25-Year Infrastructural Development

Now, for example, infrastructure. Take the relationship between the United States and Mexico, for example. Mexico has a great deficiency in infrastructure: the railroad/transport system, the energy distribution system, the water management. If Mexico is to realize its potential, it will require a tremendous amount of infrastructural development. It requires a lot of internal increase in employment, that is, for internal consumption, largely based in infrastructure. The United States, Mexico, and countries to the south must cooperate in this kind of undertaking. We must use an infrastructure-building drive, while trying to maintain levels of employment and production—long-term infrastructure development of 20-25 years—in order to create a base for rebuilding the economies.

Now, let's take the case of what we're proposing for Eurasia. I've been involved in something, in Russia, testifying before the Duma Economics Committee on this matter. And this is actually not a new form of discussion; we've been discussing this with Eurasia for some time. I'd raised this question of reorganization of a post-Soviet world in 1988, in a televised address I gave in the United States, and in Berlin in October 1988. Since that time, I've been pushing for a European Productive Triangle, a development project of this type. This included Russia at that time. We extended it to include China and other countries. We recognized that Western Europe, to revive, from its present bankrupt condition, must have larger markets. These markets exist largely in Asia—China, Southeast Asia, South Asia, Japan, and so forth. So if these countries cooperate in creating a new system, we can, through large-scale infrastructure development projects, with the cooperation of these countries, we can rebuild the world economy. Rebuild it rapidly.

My aim is to have the United States come to its senses, and participate in that kind of cooperation with Asia. We have programs which would involve today Egypt, which is interested in going in that direction, to participate in this Eurasian cooperative project. And Egypt could play a key part, in bringing development into more of Africa. You have the same kind of ideas already on the table, waiting to be implemented, for the Americas. They've been on the table for over 20 years now. So the United States, surely in its own interest, should agree to participate with these nations in Asia, Europe, and other parts of the world, who realize that they must put

the present system into bankruptcy, and launch a new system.

So what has to happen is, first of all, those of us who are, shall we say, more sensitive to reality, and perhaps have some expertise, must meet and discuss, and through our discussions, must reach out very rapidly to educate other people, including politicians. You know what happens when you talk to a typical American politician, even some of the more intelligent ones in the U.S. Senate, for example, who I sometimes find problematic. They can think, but you sometimes have to do a little work on them to get them to think clearly. They have other "considerations," "political considerations." You have to say to them, "We're going to put the system through financial bankruptcy." The first thing they'll do is, they'll scream! They'll shriek, they may run out of the room. They may do all kinds of strange things. Maybe go to a psychiatrist.

But then you say to them, "Come on, sit down! We're saying you have to put the thing through bankruptcy. Let's go through it, step by step. Suppose you decide not to put it through bankruptcy. What is going to happen?" And you have to get them to face the reality of what happens to the United States and this world, if they don't do it. And therefore, if you do that kind of educational job, we must bring together influential people, sometimes senior political figures and so forth—we have some in the room here today. These kinds of people will sit down and lay out, among themselves, what they should tell people in political positions, on a broad basis, what to do to deal with this world crisis.

## A Community of Sovereign Nations

This is *not* a national crisis. This is a world crisis. This requires strong national leaders, who are going to work together for global solutions—not globalization, but global solutions. For example, if all banking systems and so forth are bankrupt, how do you create credit? There's only one way to create credit. It's called national banking. Only the state can put the system through national reorganization. A sovereign nation-state has the intrinsic moral authority, under natural law, to create credit against the nation itself, and to use that credit both as purchase credit, and also in terms of national currency. And to control the use of that in order to cause a flow of funds into things that are absolutely essential to making the economy move.

Today, however, you simply can't do that one nation at a time. You must have a number of nations which, in parallel, will meet and agree to do the same kind of thing, and then also agree to peg their currencies through a system of fixed parities, such as we established under the old Bretton Woods System between 1945 and the 1960s. Under those conditions, we can then, under a system of fixed parities, and at a low borrowing cost of 1% to 2%, we can issue a system of 25-year credit, long-term loans, largely for infrastructure and long-term capital investment, which we could put on the world market through trade agreements, and get this world economy not only back on its feet, but growing.

## Seineldín Calls for New Monetary System

*Argentina's jailed Malvinas War hero Col. Mohamed Ali Seineldín on Aug. 4 issued a call for Argentina and Brazil to jointly promote a new international monetary system, as Lyndon LaRouche has proposed. Seineldín's "Political Declaration" reads:*

The dramatic economic events in which our beloved Fatherland Argentina is sinking, are not only a product of a national crisis, as the representatives of Anglo-American imperialism—who now presumptuously present themselves to us as the saviors of our Nation—would like us to believe. Their solutions, such as the so-called “zero deficit” program, are nothing but an effort to postpone the inevitable national financial bankruptcy, by deepening the social crisis which, through Jacobin revolts, now threatens to complete the demolition of the sovereign nation-state, a job begun with the 1982 Malvinas War.

But Argentina is not the crisis; it is part of a world crisis, a crisis of a system of globalization which is reeling

like an empire unable to consolidate itself, living at the mercy of fluctuations of the world casino of financial speculation. All national leaders who remain tied to this world system will inexorably sink, and will soon fall into disgrace, hated by their own people.

New leaders, arising from among common people, will have to assume the responsibility of undertaking national reconstruction, of setting a new mission for the Nation. It is urgent to understand that Argentina cannot pay its foreign debt, and that it is necessary that the Nation declare a moratorium which sets an example for many other nations around the world which find themselves in a similar situation. In particular, Argentina should promote an alliance for security and economic development with its sister nation Brazil, and together lead the consolidation of a bloc of Ibero-American nations against the imperial intentions of the Free Trade Accord of the Americas, which seeks to turn the continent into an enormous dollarized protectorate.

This economic bloc, led by Argentina and Brazil, should promote the formation of a new international monetary system, like that proposed by Lyndon LaRouche, to rebuild the world economy on the basis of the same reconstruction policies carried out after the 1929 crisis and the Second World War.

## The Case of China

For example, look at what China is trying to do right now, just as an example of optimism. Prime Minister Zhu Rongji went to Emsland in Germany recently, where they have a test track and they run a magnetic levitation system, equivalent to a railroad. This train can run at 300 kilometers an hour, actually more, and it's fully tested and workable. Germany intended to have such a system for its own use, for revising its own railroad system into a magnetic levitation system. But that was almost shut down. Emsland is about to shut down. Zhu Rongji was up at Emsland, at the first trial (I was there a short time later), and he decided that his country, China, was interested in this project, and the head of the government of Shanghai in China, decided that this project should be bought by China. That China would begin by building a Transrapid, that is, a magnetic levitation system, from Shanghai City to Shanghai Airport. A similar proposal was made for Beijing. The Shanghai project is now in progress, it's now operational. A magnetic levitation rail system will be operational from Shanghai to Shanghai Airport. It is also planned to connect the Shanghai development to the Beijing development.

## Great Infrastructure Projects

Now, in 2008, China is going to have a world Olympics. And by that time, China intends to have in many cities of

China, routes which have magnetic levitation trains. There are large-scale plans to build transportation corridors across Eurasia, from Japan all the way to Rotterdam in Europe. They have three routes, at least, planned, and possibly a fourth. Russia has agreed to develop a rail-link with Japan, between east Russia and Asia and the islands of Japan. Today, as the head of state of North Korea arrives in Russia, there will be discussion about completing, with Russian and South Korean cooperation, the rail-link from Pusan, in the southern extremity of South Korea, all the way to North Korea along the old routes, into the Chinese system and the Russian system, which means you can go by rail transport from Pusan in South Korea, across Eurasia to Rotterdam.

There are many other kinds of projects. There are similar kinds of projects planned by India and cooperating nations. Similar things are being discussed in Southeast Asia, as well as many other projects in China. So the world is ready, where the largest concentration of the world's population is, in China, Southeast Asia, India, Pakistan, Bangladesh, and so forth. This is a great market, if the credit is made available, at long term, at low rates, to sell and deliver the technology required by these countries. These nations will grow, they will be able to meet their obligations on the basis of this long-term credit, and the nations of Western Europe, Russia, the Americas, can grow. We can do the same thing in the Ameri-

cas. The Americas have tremendous resources, tremendous natural resources in South and Central America, largely untapped because of an underdevelopment of infrastructure. With adequate infrastructure development, these areas, so potentially rich in natural resources, can become usable by mankind. Today, you have a thinly populated hemisphere, or subcontinent, in South America. There's tremendous potential for growth, similar to the kind of thing which is possible in Eurasia.

So we have before us the prospect, that if we are willing to get rid of a bankrupt system, put it through bankruptcy, learn the lessons that we should have learned by comparing our experience from the period 1945-1964 and since; we should be able to devise, on the basis of proven precedents, the kind of policy programs, the kind of cooperation which can get the world out of its present crisis and put it on the path of recovery.

### **The Scientific Basis for Optimism**

As I've said, what is needed is, people like some of you here today, and me, and others, to begin taking our responsibility, an urgent responsibility, to discuss among ourselves, to clarify our own minds, on exactly what the right bankruptcy reorganization program is, for this sick planet. So we, in turn, must educate the relevant political forces and others in the population generally, that this is what we must do. We must make clear to them what the alternatives are of doing it, and what the alternatives, the penalties, are of *not* doing it.

On that basis, I'm optimistic about the human race.

When you look at the world as a scientist, you realize that every great discovery in science came from discovering that what people believed at that point in science, was false, was wrong. That popular opinion was wrong. And no scientific discovery was ever made by popular opinion. Sometimes, scientific discoveries, through our good fortune, reeducated popular opinion. And that's the way it is in politics. You face a situation which to many people is strange and frightening. Those of us who are older and wiser, understand. We understand, in general, what has to be done. We have to look at the lessons of the past, and devise a program for the future, as any scientist does in a crisis. And under those conditions, I think we should be optimistic. We should say, for thirty-five years, in particular, the world has been acting like a pack of fools, especially in the United States and Western Europe. We've been acting like a pack of fools. Well, maybe we've now discovered that we're a pack of fools, and by discovering that fact, maybe we can cause ourselves to cease being a pack of fools.

And maybe the suffering which we're now facing can become, for the future, something which coming generations can look back on as a great lesson. So that we can be thankful that we've suffered in this way, because only by suffering in this way are we likely to come to our senses, and do what we should have done.

Thank you.

# Maglev Trains Back On Track in Europe?

by Rainer Apel

Three events during July marked a significant potential change of transportation policies in Germany, and the renewal of a broader, public debate about magnetic-levitation railroad projects. A major international seminar on maglev projects took place on July 10, organized by the Hamburg Chamber of Industry and Commerce. It was followed by the arrival at the seaport of Shanghai in China, on July 12, of the first German shipments of electric components for the Pudong-to-Shanghai Airport maglev line; and on July 31 by the start of production, at Thyssen-Henschel in Kassel, of the magnetic field generators ("stators") that will be mounted underneath the train cars of the Shanghai maglev. Eighteen complete maglev train units will be produced for the Shanghai project within the next 18 months.

At the Kassel production site in Germany, the Shanghai contract secures 300 jobs plus another 700 in supplying firms, and the trade union factory council of maglev producer Thyssen-Krupp wrote a letter to the German government pointing out the job-creation potential, should maglev projects now be launched also in Germany.

The Hamburg seminar on July 10 was the first in a decade in Germany — the pioneer of maglev technology — which discussed maglev perspectives in a broader context; except, of course, for those numerous events already held by the LaRouche movement in Germany. The Hamburg meeting took the remarkable initiative of discussing several potential Europe-wide routes for the German Transrapid maglev system.

### **Spiral Arms of a Maglev System**

The grand project of a "Eurorapid" linking Germany with the Netherlands, Scandinavia, Poland, the Czech Republic, Austria, and Hungary, was presented at the seminar. In this maglev grid, the originally planned Hamburg-Berlin route, which the German government abandoned out of shortsighted fiscal considerations in February 2000, would be at the center. Branches would extend northwards to Denmark and Sweden; westwards to the big cities in the Netherlands; eastwards to Warsaw and to Moscow; to Cracow, and from there to Kiev; and to the southeast towards Dresden, Prague, Vienna, and Budapest.

At that Hamburg seminar, Martin van Pernis of Transrapid-Nederland advertised that the Dutch government would announce a decision by the end of this year, potentially for two projects in the Netherlands: 1) the Randstad circle line