

Crash of the Dollar Means Global Collapse

Li Mao, Washington correspondent for the Chinese publication Science and Technology Daily, sent these questions to Lyndon LaRouche, following LaRouche's Nov. 16 webcast (see EIR, Nov. 24). An article based on the webcast and this interview appeared in the daily on Dec. 4.

Q: You warned that if the U.S. dollar were devalued by more than 30%, the America economy would go down, and so would that of China and India—even the whole world. Would you please specify the reasons?

LaRouche: There is a revelant conceptual problem, a problem of scientific incompetence among most economic forecasters. They forecast like a mathematician forecasting the trajectory of a billiard ball on a tabletop. Theirs is the method of mechanistic-statistical forecasting, of trajectories in Cartesian space-time.

Competent economic forecasting takes into account long-term cycles of physical-capital investments within the economy considered as a dynamic process. That is my method of forecasting, which is consistent with Riemannian methods.

Competent forecasting in today's world must take into account the lack of coherence between monetary-financial values and physical values considered independently of monetary-financial assumptions.

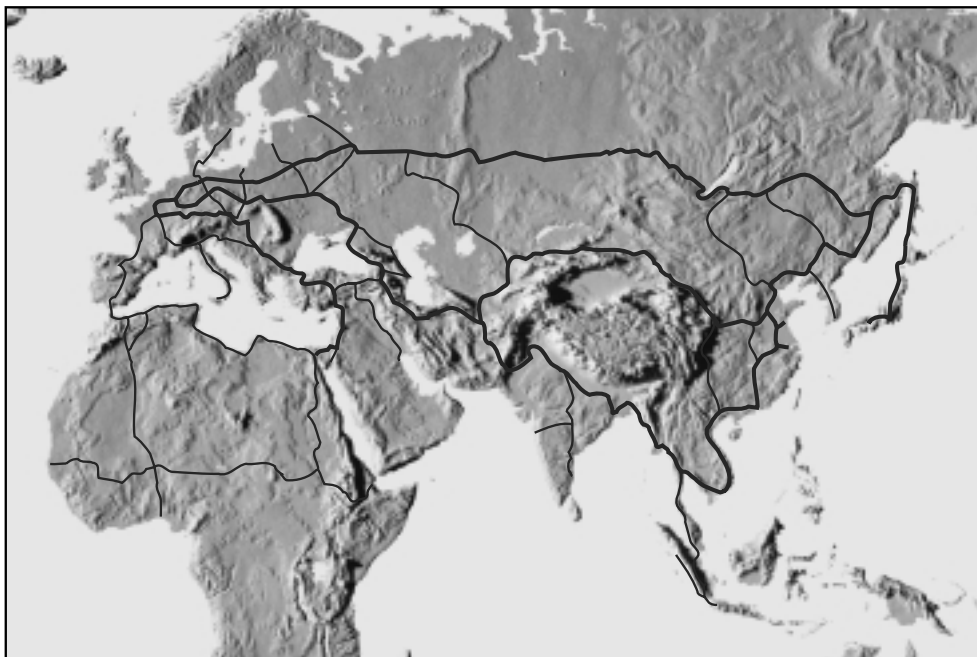
Thus, in the trans-Atlantic economy of the recent three and a half decades, the monetary-financial capital has soared at an accelerating rate, whereas, the physical values per capita and per square kilometer have been collapsing at an accelerating rate.

What has kept the world market functioning since the 1971-1972 termination of the Bretton Woods system based on the U.S. gold-reserve-denominated dollar, has been the assumption that dollar-denominated values are in some way sustained by general belief among nations and traders, that the dollar will remain negotiable over the long term, in approximately current values.

If the dollar suddenly collapses to levels about eighty percent below current estimates, the collapse of the dollar will mean a collapse of every currency holding dollar-denominated monetary-financial reserves. This would not stop at an eighty percentile collapse; that collapse would be the trigger for a global panic. In that condition, unless the specific reforms which I have outlined are promptly adopted, the entire world-trade system would go into a chain-reaction collapse to some low percentile of current levels.

Nothing can save the present form of International Monetary Fund system. It is inevitably doomed, in one way or another. It is doomed, either to disintegrate, or doomed to be replaced by a new system installed under emergency conditions.

Topographical Map of Eurasia, with Some Main Development Corridors of the Future



The best way for China to use its monetary assets effectively, LaRouche advised, is to issue long-term credit for investment in Eurasian infrastructure—such as the actual and proposed development corridors shown here.

Q: Last month, a Japanese economist, who was interviewed by my colleague in Tokyo, said the U.S. dollar crisis was approaching silently. The dollar was facing devaluation, and in the worst scenario it could collapse, which would bring a great shock to the world economy, if the expanding U.S. trading deficit and debt were not stopped or solved. What is your comment on this, and in what circumstance, might this terrible assumption become a reality?

LaRouche: This fear is a reality. Were I the President of the U.S.A., which I am not, and will almost certainly not become soon, and had I support of the leading U.S. political party in the Congress, I would be prepared to take appropriate cooperative action with some leading nations, and this could halt the collapse-process, and would lead to a new, global fixed-exchange-rate monetary system through long-term agreements, of a quarter to half century, among leading nations and groups of nations. As long as we have the current U.S. President and Vice-President, safe escape from a likely global chain-reaction collapse is not probable.

Q: At present, the U.S. government is pushing very hard for the Chinese RMB (yuan) to be increased in value. How can we explain this practice, against your not wanting a devaluation of the dollar, and what are the impacts on both the U.S. and China if the RMB's value continues to climb?

LaRouche: While I would wish a lower rate of China's dependency on cheap exports, and more concentration on China's internal development, any devaluation of the U.S. dollar, as by increasing the relative price of the RMB, would tend to unleash a catastrophe. Unless the U.S. agrees to the kind of reform I have indicated, there are no current remedies for the crisis presently in sight.

Q: In order to prevent the U.S. dollar from too much devaluation, what must the international community do, in your opinion, especially from the China side?

LaRouche: Long-term trade and investment agreements, based on physical, rather than current monetary-financial values, especially for projects in technologically progressive investments in basic economic infrastructure, are always correct steps of reform. Such steps will tend to minimize the effects of a crisis, and will provide the benchmarks for needed general agreements of reform among nations.

Q: China now is one of the countries in the world with a huge amount of U.S. dollar reserves. What are the potential risks to China? What are your suggestions for China to use those dollars effectively?

LaRouche: Were I a citizen of China, I would emphasize the use of such monetary assets as long-term credit for technologically progressive investments in creating (physical) basic economic infrastructure, both within China, and in joint Eurasian development programs.