Dollar Collapse Begins A Drama for Eurasia

by Paul Gallagher

At one of his final town meetings in New Hampshire's Presidential primary, Sen. John Kerry gave a smile of acknowledgement when LaRouche Youth Movement leader Mike Reeves told him that the collapse of the U.S. dollar will bring down the world financial system and "cut out the baby talk in this campaign." Reeves was citing the repeated public alarms to this effect by former Treasury Secretary Robert Rubin in mid-January. Rubin had followed the clear warnings of Presidential candidate Lyndon LaRouche, that the dollar's fall was going to accelerate, go to a loss of 50% or more of its value, and become uncontrollable, triggering a collapse. LaRouche's assessment is echoed in many informed quarters now, including by the sleazy mega-speculator George Soros—funder and would-be buyer of Democratic Party candidates—on Jan. 26.

But in Asia, the dollar's collapse is becoming a pressure for action to change the world's monetary arrangements; a pressure that will soon become unpostponeable. The major Asian powers' levels of direct and indirect support for a plummetting dollar cannot continue much longer.

Consider the case of loyal U.S. ally Japan. During the month of January, Japanese currency-market interventions to try to stop or slow the fall of the dollar, already huge throughout the previous year, "went ballistic." They now constitute a spectacle never before seen in monetary relations between sovereign nations.

During 2003, the Bank of Japan, authorized by the Japanese Finance Ministry, officially spent 20.1 trillion yen (now worth about $188 billion) for interventions on foreign exchange markets, desperately trying to keep the yen from rising too fast against the dollar. This amount was not only a historic high, but it was actually triple the amount of the previous all-time record. But all of the 2003 interventions are nothing against what's going on now. According to a report in the Japanese daily *Yomiuri* on Jan. 24—official data will be presented much later—Japan had already spent another $56 billion on currency interventions during the first 18 days of the new year!

The Japanese Finance Ministry has to borrow money for these interventions, and has already used up its entire 79 trillion yen borrowing limit for currency interventions for Fiscal Year 2004, which doesn't end until March 31. In the new fiscal year, the limit will be almost doubled to 140 trillion yen (about $1.3 trillion). In the meantime, the government relies on short-term credits from the Bank of Japan for the currency operations. On Jan. 14, the Bank of Japan granted the government a first injection of 5 trillion yen (almost $50 billion). As a by-product of these operations, the interest rate on short-term interbank borrowings on the same day plunged to minus (!) 0.30%. Japanese Finance Minister Sadakazu reported on Jan. 20 that by the end of the fiscal year, Japan will have about 8 trillion yen ($74 billion) in unrealized losses on its foreign exchange holdings, Another consequence is that Japan has now by far the biggest holdings of U.S. Treasuries—$525 billion—of any country outside the United States.

Chinese President Hu Jintao's current visit to France has shown that "the convergences between France and China have never been so strong," to quote French Foreign Ministry spokesman Hervé Ladsous. But will this mean Europe would support Chinese moves away from the dollar?—something that China, with its highly unbalanced economy and 800 million peasants, will urgently need.

At the end of December 2003, Francois Heisbourg, former head of London's International Institute of Strategic Studies and now director of the Paris Foundation for Strategic Research, wrote a commentary in the *International Herald Tribune* asserting that "China will limit U.S. power" by using its "economic weapon." Heisbourg warned of "impending tectonic shifts between China and the United States. It is no exaggeration to suggest that their consequences will dominate the next U.S. Presidential term."

The compliance of the Bush Administration with Chinese policy on Taiwan, Heisbourg asserted, is due to "America's dependence on China in the monetary arena. If China were to cease to accumulate dollars, the result would be an uncontrolled free-fall of the U.S. currency, inducing a systemic shock for the global economy. "In other words, China holds the fate of America's economic recovery in its hands." But, "China would no doubt be hurt as much as, if not more than, the United States if it were to turn its back on the dollar." That would destroy China's trade surplus with America, the "engine" of its growth, and cause "dire social consequences in China . . . the functional equivalent of using a nuclear weapon, something neither rational nor likely."

The necessity to measure trade and investment agreements in something other than the dollar system is pressing on the nations of Eurasia. Speaking at an economic conference in Jeddah, Saudi Arabia on Jan. 19, Malaysia's former Prime Minister Mahathir proposed to switch the oil trade among nations to the "gold dinar" from the dollar. He proposes that groups of countries tally their total annual imports and exports and then settle the difference at the end of the year in gold dinars. A gold-reserve currency system is a necessary basis for the overhaul of the bankrupt floating-exchange-rate dollar system. But the valuation of currencies will have to be based, as Lyndon LaRouche has outlined, on a basket of those commodities which those nations require for infrastructural and economic development.