Support grows for a New Bretton Woods system

by Marcia Merry Baker

The Ides of March marks both a break-out period of unprecedented financial and economic crises, and also a break-out of policy debate, away from foredoomed "crisis-management," and toward the idea of creating a new world financial system, which serves the interests of sovereign nations.

A year ago January, Lyndon LaRouche called for just such a policy initiative, forewarning specifically that 1997 would be the start of an epic financial blow-out, that the International Monetary Fund system was dead, and that only a "New Bretton Woods" approach to saving nations and peoples, could prevent catastrophe. The method by which LaRouche was right on these contingencies, when others were wrong, characterizes the power of his thinking and commitment over his entire 50 years as an economist-statesman, during which time he has fought unceasingly for a "new, just world economic order" among nations.

Now, more voices are joining in, calling for a New Bretton Woods.

(The original Bretton Woods system, founded in 1944, was a set of agreements among nations to stabilize trade and currency flows, using fixed exchange rates pegged to the dollar, and a gold reserve system. That system was dismantled in 1971 by President Richard Nixon, when he decoupled the dollar from gold.)

Recently, the idea was floated by Japan's leading financial diplomat, Deputy Finance Minister Eisuke Sakakibara, who said in an interview on March 2 with the daily *Mainichi Shimbun,* "I believe that many world leaders may well be starting to contemplate the idea of a financial agreement along the lines of the Bretton Woods agreement."

On March 1, Indonesia's President Suharto told the People's Consultative Assembly, "The financial crisis . . . [is] more serious, more widespread and more lasting than anyone could have imagined. . . . Our economic lifeline [has] begun to be compromised. . . . This is the reason why I have asked the IMF and other heads of government to assist us to find a more appropriate alternative. I refer to the more appropriate concept as IMF-Plus."

The question is, can we force the right agenda for nations to take the called-for emergency measures in a New Bretton Woods approach? The opportunity is at hand, in a meeting already scheduled for Washington, D.C. in April, to be attended by 22 nations and other agencies, hosted by the United States, on the subject of the world financial crisis. U.S. Treasury Secretary Robert Rubin, speaking at the Feb. 17 premeeting, said that there should be "wide-ranging discussion over the coming months," on how to change the "architecture" of the world financial system.

The Feb. 17 pre-meeting, in Washington, D.C., was attended by deputy-level financial leaders; and the roster of participating nations adds up to the strategic clout to forge a new monetary system. From Asia: China and Hong Kong, Japan, South Korea, Indonesia, Thailand, Singapore; also India and Australia. From the Western Hemisphere: Canada, Brazil, Argentina, Mexico, as well as the United States. From Europe: France, Germany, Italy, Britain, and Russia and Poland. And South Africa. Task forces are operating in France, Italy, and other nations, to come up with specifics for the April financial summit conference, for which no date has been set as of this writing.

IMF's checks 'insufficient'

In his interview, Deputy Finance Minister Sakakibara pointed to how unstable and dangerous current world market money movements are, so that a situation such as the Asian crisis, can break out anywhere. "This just showed how unstable current world capitalism is," he said. "Many people may now be realizing that both the International Monetary Fund's checks and its solutions are insufficient." Sakakibara gave no specifics for a new monetary accord, but stated that Japan wants to be a part of such an effort.

Two days later, U.S. Treasury Secretary Rubin also referred to the debate over controlling international money flows. Testifying to the U.S. Senate Appropriations Committee, Subcommittee on Foreign Operations, Rubin said, "This is, I think, an issue that needs to be very carefully discussed and analyzed, and I'm not sure what we think about it, frankly. But [French Finance Minister Dominique Strauss-Kahn's] view was that there are these vast flows in the global financial markets, which is true, and that they're going into developing countries that have immature financial sectors; . . . that it may be that we need to have some kind of restraints on these flows of private-sector capital until these systems become strong enough to absorb them. We happen to be great believers in freedom of flows of capital, and so we have some, I'd say, rebuttal presumption against that; but nevertheless, we're not opposed to it dispositively. We have to analyze it."

Heated discussion

Only one month earlier, this kind of discussion took place only behind closed doors. For example, at the Davos World Eocnomic Forum, a heated private session took place on Jan. 30, over national capital controls, and other aspects of what some are calling the "Rubin Manifesto," referring to the frequent mention by Rubin (who was not at Davos), of a list of guidelines for world financial reform. Now, debate is coming out into the open.

In the Philippines in early February, Senate President Neptali Gonzalez told delegates of the National Economic Summit, that the damage from the IMF's inability to control capital movements means the Fund and World Bank should be replaced or reorganized. Gonzalez said that financial globalization "will always become a threat, and not, as it should be, a challenge and an opportunity," if the IMF and World Bank cannot deal with "massive and sudden" capital flight. To bolster his point, he cited the World Bank's own senior economic adviser, Pieter Boltelier, who said "the rapid and uncontrolled movement of capital around the world can cause economic damage as severe as war."

In France, on Feb. 22, the president of the RPR neo-Gaullist party, Philippe Séguin, called for a "new international monetary system," in an interview given to the TV network TF1. Regarding the damage caused by unbridled capital flight, Seguin proposed "to raise a tax on capital flows to bring some rationality" to these flows. The reason given by Séguin, is "to give the democratically elected power the ability to express itself before the markets do." Concerning this last proposal, the Paris daily *Le Monde,* on Feb. 24, reminded readers that this proposal is now part of the RPR's new program, although *Le Monde* noted that right-wing politicians had heretofore viewed it as "unrealistic." During his Presidential campaign in 1995, Socialist leader Lionel Jospin mentioned it, but dropped the subject during last year's parliamentary election, which handed him the Prime Minister's post.

Life-and-death matter for nations

The highest stakes are associated in the battle for a new financial system, namely, the life and death of nations. The act of merely mooting a new policy direction becomes red-hot, when it inevitably clashes with the perceived interests of international financial circles centered politically in London. British finance has demanded free trade, foreign control over national resources, "open markets," limitless speculation, and an end to national sovereignty in the name of "transparency" and other ruses, *or else*.

Sakakibara's case is exemplary: A few months ago, he raised a contentious policy option, proposing an Asian Monetary Fund, as a defense mechanism for Asian economies. This was soon shot down. Then, this month, a scant 24 hours after Sakakibara's tentative mention of a new world financial system, a seven-year-old scandal charging misuse of funds was dredged up against him. Also, the next day, the London *Financial Times* went after Sakakibara, citing a "common flaw" in his arguments about how to achieve calm markets. The *Financial Times* glowered: "It is doubtful whether a Bretton Woods-style arrangement is feasible, especially in the modern era of huge cross-border capital flows that dwarf the world's foreign exchange reserves. It may be that convergence of economic policy among leading nations will anyway calm the markets. Either way, if Asia's leaders want a quiet life, there is no alternative to cleaning up their own back yards."

As LaRouche has warned, and we have documented in the pages of this journal, the most intense strategic threats right now are aimed against the institution of the Presidency of the United States, from London-coordinated terrorism, diplomatic crises, and pre-planned international conflicts. The purpose is to destabilize the United States' potential response to the world economic crisis.

In a Feb. 26 statement on this, LaRouche said, "London's motive, then, and now, has been to weaken U.S. authority and influence around the world. to the degree that nations would shun cooperation with the Clinton administration in that projected 22-nation April meeting on the subjects of financial and monetary reform."

Financial meltdown, economic breakdown

Meantime, the facts and pace of the financial and economic breakdown are indisputable. Roger C. Altman, an investment banker who served in the both the Clinton and Carter Treasury Departments, wrote in the March 1 *New York Times Magazine* about "high anxiety" among central bankers and finance ministers who see the "chain reaction, global market meltdown." The financial "markets have emerged as the ruling international authority, more potent that any military or political power." He said they are "capable of overthrowing governments and their policies overnight."

As a follow-on to the financial blow-out process in East Asia and elsewhere, physical production and trade in goods are shrinking drastically. In our *Economics* section this week, we provide reports on the situations in Korea and Mexico, and on the global pattern of commodities collapse.

In Indonesia and Thailand, the IMF's Southeast Asia bailout victims, the second phase of the economic crisis that already collapsed currencies 30-80% since July 1997 has begun. The Indonesian rupiah has plunged from the rate of 2,600 to the U.S. dollar in early July, to its current level of around 9,000. On an annualized basis, Indonesia is experiencing nearly 32% inflation, hitting every household: food, up 16.07%; housing, 10.03%; clothing, 15.62%; essential services, 9.31%. In Thailand, the official rate of "growth" is −6.5%, that is, *negative* so far in 1998. Imports in Thailand were down 50% in January 1998, from a year earlier. The situation is summed up in the fact that in Indonesia, the world's fourth most populous country, there is now a food crisis. The rice shortfall is close to 3-4 million tons for this year.

Documentation

Mexico must adopt LaRouche call for New Bretton Woods

The following article by José Neme Salum, which was headlined "Washington Is Watching Mexico: 'The Third Alternative,'" appeared in the Mexican daily Excélsior *on Feb. 23. Subheads have been added.*

It is understandable that for purely cosmetic political reasons and future personal concerns, [Mexico's President Ernesto] Zedillo and his ministers talk about an economic scenario far from reality. But it is inconceivable, unjustifiable, and intolerable that Federal deputies should show themselves to be so incompetent, so inept, and so lacking in courage in the face of the criminal madness of keeping national policy tied to neo-liberal dogma, despite the evident damage to the economy and to the social order of the country.

What are these gentlemen waiting for? For people to rise up in rebellion, as is occurring, for example, in Indonesia?

Fifteen days ago, it became clear here that the people's representatives, the politicians, and the citizenry in general would have to demand information, and to influence in whatever legal, possible, and necessary way, Mexico's participation in the 22-nation meeting that William Clinton has convened for next April, in Washington. This is for the purpose of agreeing to a general reform of the world monetary system, currently in a meltdown phase, as has been recognized even by the authorities of the U.S. Treasury Department.

Mexico will be one of those 22 nations that will define, for better or worse, the immediate future of the world. And clearly, in view of such an important matter, there is a great dispute over what the real agenda should be, in terms of proposals, in every major country on the planet.

However, in Mexico, despite the fact that numerous deputies are informed of this crucial meeting, they are doing nothing. Last Wednesday, they invited Finance Minister José Angel Gurria to Congress, merely to waste time with foolish matters, already dwarfed by the critical nature of the ongoing disintegration of the current international financial system.

Are they still unaware of the situation? How can it be so simple for them? First they announce a cutback of 15 billion pesos, and then present a "definitive" cutback of 18 billion pesos . . . as if 3 billion pesos were nothing. . . .

The financial system is going under

The financial system is going under, no matter what words are used to cover up the truth. . . . The only reality within the Zedillo government apparatus was publicly recognized last Friday in Guadalajara, Jalisco, by the deputy governor of the Bank of Mexico, Everardo Elizondo, who said, "Not even the Bank of Mexico has any idea of the impact of the current Asia crisis on our economy."

. . .This is the case with Zedillo and his underlings: They don't know what to do. These characters who, based on their servile willingness to use state power to impose the fascist conditionalities of the IMF model . . . and who are now the offspring of that perversity: They began bad, continue bad, and are heading for worse.

But what about the deputies and senators, like José Angel Conchello, who "already know," as opposed to the pathetic cabinet members who keep committing one policy blunder after another?

Why didn't they demand that Gurria . . . discuss with them what Mexico intends to present and defend at this important international financial summit?

How is the Mexican position going to be presented to society, and with the latter's intelligent support—not the re-