

LaRouche, Other Top Economists, Talk to 'Smart Investor' Magazine

In Fall 2000, Long Shih Rome, editor of the Malaysia- and Singapore-based magazine *Smart Investor*, circulation 20,000, invited *EIR* Founding Editor Lyndon H. LaRouche, Jr. to contribute to a two-part series, with three other prominent economists, on ongoing debate among and between the ten-member Association of Southeast Asian Nations (ASEAN) and its "plus three" dialogue partners, China, Japan, and South Korea. That debate included, in the Fall of 1997, Japan's Eisuke Sakakibara's proposal for an Asian Monetary Fund (AMF), followed in September 1998 by the imposition of selective capital controls in Malaysia, and, in May 2000, the Chiang Mai Initiative, in which the ASEAN-Plus-3 launched currency-swap agreements and other steps toward forming the AMF.

Appropriately, Long Shih Rome titled his October 2000 editorial introducing the series, "Asia Revisits Bretton Woods." We reprint below the entire interview with Lyndon LaRouche, and summarize briefly the interviews with the other three economists: Robert Mundell, Joseph Stiglitz, and Dr. Mohamed Ariff.

The 1999 Nobel Laureate, Prof. Robert Mundell of Columbia University, starts from the premise that the U.S. stock market had already crashed by October 2000. "I think," he said, "there will be another correction, but it is not going to be such a devastating crash. The big risk would be that if the U.S. economy slows after it has come up, the dollar will start to weaken." Asia needs to move toward a common currency, he argues, but given wide disparities among the region's economies, compounded by tumultuous conditions in the largest ASEAN member, Indonesia, he recommends a parallel currency "that wouldn't replace national currencies, but would be used for trading in Asia. It would have to be a stable parallel currency and it would have to be anchored to the U.S. dollar at the present time." He strongly supports the (colonial) currency board system, pointing out that the European monetary union (for which Mundell was a leading architect) "is like a currency board arrangement. It imposes on the country the monetary policy that takes place within the currency board. And that is a viable system."

Former World Bank chief economist Prof. Joseph Stiglitz is cautious about the idea of a common currency, and explicitly relates Malaysia's selective controls to fighting "speculative hot money." "The Asian Monetary Fund," he says, "is a very good idea: the notion that the countries in the region should cooperate in enhancing the stability of the financial

system and make themselves more independent of the IMF, which has shown remarkable insensitivity to the differences in the situation in East Asia and in Latin America. It would seem to me that if there was another crisis, they shouldn't be as dependent on the IMF as they were in the last crisis."

Dr. Mohamed Ariff, executive director of the Malaysian Institute of Economic Research, recommends a two-step process to free the Malaysian currency, the ringgit, from the fixed rate set in September 1998. "As an economist, I want to get the price correct, the price should really reflect supply and demand. That's why I believe the market should be the best judge of what the prices should be." Short of that, Dr. Ariff is positive on the idea of a parallel currency that is part of a system based on three major currencies.

The following is the full text of Mr. LaRouche's replies to the editor's questions.

Q: In your latest article [July 18], you mentioned that you oppose the fixed-exchange-rates system based on a regional basket of currencies. What are the reasons for this view and what alternatives are you proposing? Perhaps you can explain the proposal for a basket of hard commodities in simple terms.

LaRouche: As a simple reply to that question, a basket of currencies will not be a durable, or even semi-durable arrangement under the conditions of the presently onrushing collapse of the existing globalized, IMF-centered monetary and financial system. That collapse will be extremely chaotic, with accompanying, wild short-term fluctuations in relative values of currencies.

A basket of commodities, if defined in the way I have presented the case in both my July 18 "Trade Without Currency" (*EIR*, Aug. 4, 2000, Vol. 27, No. 30) and Aug. 15, "The Art of Management" (*EIR*, Sept. 8, Vol. 27, No. 35) reports, is the only workable alternative, under the circumstances which will continue to worsen until a new global monetary system, like that of 1945-1965, is re-established to replace entirely the presently hopelessly bankrupted form of the IMF. Happily, such a basket of commodities would continue to be a viable standard for trade and investment under the conditions a sane new monetary system would be established.

As comment on the referenced question, and also on related views expressed in the queries which follow, I emphasize the significance of the fact, that even most among those parties currently associated with the discussion of an Asia



One of the issues of Malaysia- and Singapore-based Smart Investor magazine, in which the debate among leading economists, over the future of an Asian Monetary Fund, has involved Joseph Stiglitz, Robert Mundell, Lyndon H. LaRouche, Jr., and Dr. Mohamed Ariff.

Monetary Fund, have been blocked by obvious fears from facing the reality that the present world financial and monetary system is in the terminal phase of its existence. No proposal to work within the doomed system could be successfully implemented under these conditions.

What seems to me to terrify spokesmen from ASEAN-Plus-3 nations the most, is the fact that a collapse of the U.S. financial market means a sudden collapse in the levels of exports to the U.S.A. Any plans by ASEAN and other nations for surviving an inevitably early U.S.A. financial crisis, must be based upon plans for survival under conditions that the U.S. market for exports from ASEAN, China, Korea, and Japan will have collapsed drastically and suddenly, even if that will be, hopefully, only a relatively temporary state of affairs. No measure by Malaysia itself could alter that essential inevitability.

One must not fear the inevitable collapse of U.S.A. import levels. One must accept that fact, and prepare to survive without dependency upon continued ties to a doomed sort of globalized financial system. One must learn the lesson of Malaysia's correct responses to the world financial crisis of 1997

and 1998. Do not try to please the tiger; he will only eat you all the more quickly. Defend yourself against the predators like Soros and those Anglo-American financier-predator interests behind him.

Q: Is a second Asian currency shakeout imminent considering the weak [Indonesian] rupiah, [Thai] baht, and [Filipino] peso? Without central banks' intervention, do you think the baht or any other Asian currency would have weakened more?

LaRouche: The only way in which the terrible impact of a new round of chain-reaction financial and monetary collapse could be resisted effectively, would be a sudden and extensive resort to a combination of: a) strict capital and exchange controls, b) domestic financial and related regulation, and c) establishing an emergency package of combined short-term, medium-term, and long-term capital and trade agreements among a group of nations which represent, in aggregate, the most essential elements of a full-set economy. Heavy emphasis must be placed on long-term development of improvements in basic economic infrastructure, as an alternative to collapsed export markets, as U.S. President Franklin Roosevelt did in defending the U.S.A. from the worst effects of the 1930s Depression.

The collapse of revenues from current exports into the U.S.A., which is already threatened for the near term, and which will be initially very deep, must be offset by intra-Asia trade based upon medium-term and long-term capital improvements, especially in the category of basic economic infrastructure. Internal regulation of economic affairs, and kindred forms of agreements reached among partner-nations, will be of the most crucial importance.

Q: How do you think we can address the problem of a volatile U.S. dollar? If the U.S. dollar strengthens, it would make the ringgit too expensive in non-U.S. dollar markets like euro and yen zones. If the U.S. dollar weakens, it would raise our import costs denominated in yen and euro.

LaRouche: For the moment, no plans should be made which depend upon wishes for a helpful role from any among the five nations of the Anglo-American Five. These are the United Kingdom, Canada, Australia, New Zealand, and a Wall Street-dominated U.S.A. The present prospect, that either Governor George W. Bush or Vice-President Al Gore, might be elected U.S. President in November 2000, means the menacing tendency for escalation of the worst possible economic and other policies by all of the Anglo-American Five toward the nations of ASEAN, China, Korea, and Japan. Nations should not be blind to the fact, that the heated attacks upon Russia, immediately following the U.S. Republican and Democratic parties' Presidential nominating conventions, are not merely a new threat-posture of the Anglo-American Five toward Russia, but also toward the nations of the ASEAN-Plus-3 group.

However, we must not overlook the probable changes in

The currently popular form of the widespread dogma among economists and others, that financial capital is needed for economic growth, is a myth which, in strong doses, has an effect upon a national economy akin to that of alcoholic beverages or psychedelic drugs upon the driver of an automobile.

Japan's policies toward the U.S.A., and some changes in a similar direction from France and others, under rapidly sharpening present world-crisis conditions. I will not guarantee that Japan will react as I would hope it would, but my hope that it will is not groundless. Obviously, the success of such a change in policy would depend upon positive improvements in cooperation between Japan and China. Without the kinds of trade agreements centered upon long-term capital improvements in basic economic infrastructure, there is no way in which to avoid the very worst results of the onrushing collapse of the present, Anglo-American Five-dominated, globalized world financial and monetary system.

Q: What is the fair rate for a currency? The PPP method is said to be impractical because of trading costs slowing down the adjustment between domestic prices and exchange rates.

LaRouche: All assessments and assumptions premised upon what had become widely accepted pro-monetarist dogmas among the majority of economists, should be discarded as if they were carriers of a pandemic plague. The possibility of improvements in economies, and of even minimizing the effects of the onrushing world crisis, depends absolutely upon a traditionally protectionist role of the sovereign nation-state, and, hopefully, closer cooperation among such states in the cause of mutual defense against the follies and doom of the Anglo-American Five's current policies and practices.

Q: To avoid becoming uncompetitive if the U.S. dollar appreciates, some economists suggest a three-way peg of the [Malaysian] ringgit. Would a currency peg with the euro and the yen be successful or would financial markets react negatively to this?

LaRouche: If what are considered the relatively most radical proposals from supporters of the Asia Monetary Fund are adopted and implemented with aid of long-term capital and exchange controls and trade agreements, the best possible defense of the level of production will be attained. How that will work, is indicated in general and also in unusual depth, in my "Trade Without Currency," and in the item appearing in the Sept. 8 edition of *EIR*, "The Lost Art of Management."

You will note there, that although those pieces imply a strong orientation toward the hope of successful measures among the ASEAN-Plus-3 nations, they also feature strong

emphasis on hope of cooperation with some nations of continental Europe, and also, hope that a great shock will bring the policy-making of the U.S.A. back to the sanity from which it has so long departed.

Q: Inflationary pressures are mild in Malaysia, hence there is little risk of depreciation if the ringgit is floated. What are the risks of currency attacks now that hedge funds are being downsized globally?

LaRouche: The evidence that the ringgit has stabilized, is chiefly to the credit of the government's relatively modest deployment of elementary, and indispensable protectionist measures. If the ringgit were now floated, the relevant predators would immediately and successfully attack and destroy the currency, as they have the rupiah. The fact that sanitary measures have slowed greatly the spread of a pandemic, is not to be taken as a premise for suddenly abandoning public sanitation.

Q: How may banks and world governments regulate the risk of a potential Long Term Capital Management (LTCM)-like collapse? Is writing off the derivative debt a solution?

LaRouche: There is no existing animal, in the jungle or elsewhere, worthy of the name of a potential LTCM-like collapse. Such collapses are now inevitable for the near term, and to attempt to revive them would amount to a futile effort to reawaken the dead. The condition of such organizations is already past terminal, and their extinction the most merciful thing to be done at this juncture. Writing off the derivative debt, is not an option; it is an inevitability. Either eliminate all such forms of debt, in a sweeping way, or there will soon be no nations or economies standing.

Q: You mentioned that a current account surplus is not a good thing for a growing economy. Eventually, a current account deficit will occur because the economy needs new capital to grow. When do you foresee this, and is this the best time to float or depeg the ringgit?

LaRouche: The object should be to avoid a persisting current account deficit at all costs. The best means to accomplish this, is through relevant capital, currency, and financial controls, and relevant long-term trade-agreement partnerships.

The currently popular form of the widespread dogma among economists and others, that financial capital is needed

for economic growth, is a myth which, in strong doses, has an effect upon a national economy akin to that of alcoholic beverages or psychedelic drugs upon the driver of an automobile. What is needed is long-term physical-capital formation, that both in basic economic infrastructure and in the technology of productive capital. The objective should be, to find partners who will supply physical capital goods and related technological assistance of that sort at long-term costs of borrowed credit near to 1% rate of annual simple interest. Thus, what would otherwise be a cause for long-term capital accounts deficit, is turned into a source of financial and monetary stability for both the importing and exporting partners, and a source of long-term growth, as growth is measured in physical terms, per capita and per square kilometer of national territory as a whole.

I would never recommend depegging the ringgit. That, under present, or foreseeable near-term conditions, would be the ruin of the nation.

Q: What is your view on the Asian Monetary Fund? Do you think Asian central banks can successfully build a currency bloc even though it may not be a single currency?

LaRouche: From the beginning, I have consistently supported the idea of the Asian Monetary Fund, and still do. However, I never suspected that the honorable Sakakibara had suggested, that such a fund, by itself, would cure all sicknesses. It is potentially a valuable part of a package of actions.

For example, in order to bring about a success for measures of that type, it is indispensable to reach certain agreements among Japan and China, in addition to Korea, in addition to agreements within the ASEAN nations. There must be a very broad economic basis, and also a source of advanced technology which can not come into being until a certain state of mind is reached between Japan and China. In the meantime, we must take steps which go in that direction, and which will be helpful in promoting the kinds of cooperation needed to establish an approximation of a partnership of full-set economic potential in Southeast and East Asia as a whole.

A basket of currencies will not work, for reasons I have identified above, and have elaborated in the referenced recent reports by me. We need an index-value based on a basket of commodities, an index which approximates the function of the gold-reserve-based, protectionist IMF system of 1945-1958.

Q: Do you think that the disadvantage with the regional agreement to support each other's currency is that financial markets will take it as a sign of weakness when a buffer fund is being called upon to support specific currencies?

LaRouche: If a nation is threatened, then its securing new volumes of armaments may be seen as a sign of the weakness represented by the current threat. However, not to rearm, would be the kind of act of cowardice which provokes the predators' thus virtually assured attack.

Q: How do you see the economic health of Malaysia vis-à-vis the region? If Japan does not recover from 1.5% GDP growth this year to the projected 2.5% next year, would Malaysia and South East Asia suffer badly?

LaRouche: Of course, that, if considered only by itself, without considering other matters, would make matters in Malaysia more difficult. However, there is nothing in the present world situation which does not already threaten all of Southeast Asia, and China, too, with much vaster pain than a mere slowing of Japan's own growth might tend to bring about. Again, to those who pose such questions, I reply: No matter what you do, or do not do, the present world financial and monetary system is presently in its terminal phase. Wisdom means to accept that fact, and to prepare to take the measures which you would have wished to have taken when this inevitable, early chain-reaction of collapse erupts, very soon.

Q: With capital controls, do you think the Asian countries will be more insulated from a crash in Wall Street or a hard landing in the U.S. economy?

LaRouche: Insulated is much too strong a word. There is no way in which Malaysia, for example, could be insulated against the inevitable crash of the world's presently globalized financial and monetary system. The word to be sought, should not be insulation, but the more modest one, sovereign national survival.

The common recurrence of such questions, reflects the popularization of that very philosophy of Locke, Hume, Adam Smith, and the British utilitarians and European logical-positivists generally, which often leads even the majority of the people of modern nations into bringing about their own ruin. It is not only moral corruption which prompts some political leaders and others to appeal to the cupidity of the individual member of society. By appealing to short-term desires of the weaker majority of society's members for sensual gratification, corrupt leaders are able to bring about the fall of those governments which are the best defenders of the interests of both the present and future generations of the population and nation as a whole.

The doomed nation is often the one which had eliminated those leaders who will lead the people away from the pitfalls of small-minded preference for personal advantage, which leads them, with the aid of such temptations, in ways leading to the doom of the survival of the nation as a whole. "Think of your personal greed," the corrupt ones promise; "Support me, and I will then give you . . .," the corrupters whisper. I hear such whispers floating in the air in the continuing effort to destroy Malaysia, by ending the policies which had protected it from the worst of what Malaysia's neighbors have suffered.

Weaker political figures, in their efforts to please the corrupted, will say, "Isn't there some way we can compromise with Satan?"