

ture customers, such as China, India, Russia, and so forth. This is the only hope for Western Europe.

For example, Germany today: Its only future lies, in terms of trade, on the trade relations which are improving with China and Russia. In every other part of the world, Germany is going down, in losing its markets. This will increase. This is the condition of all of Europe; of Italy, of France, so forth. The markets in Eastern Europe and Asia are the primary hope of survival, and even continued existence of these European nations. These nations are not rich nations. They're poor nations, which desperately need technology to enable the poorest part of their population to raise their standard of productivity in the future. This is to speak of 25-year investments, or 10-year investments, and corresponding amounts of credit.

Put The System Into Bankruptcy

Therefore, somebody must create the credit on long term, credit secured by states, and by agreements among states, and used according to policies among states, to create a secure line of credit, of public credit, at between 1 and 2% simple-interest lending rate, over periods of up to a quarter of a century, or a generation. Under those conditions, using the lessons we should have learned from the post-war reconstruction in the Americas and Europe, in particular, from 1945 to the middle of the 1960s, *we could do well!* The opportunities in Eurasia are tremendous. The market potential on a 25-year future prospect is tremendous. The building of railroads, of new types of railroads, of transportation systems, of power systems, of transforming an area which contains some of the richest supply of mineral natural resources in the world, in Central and North Asia. These are areas that can be productively developed for the benefit of Eurasia as a whole. These are the future markets. This is where the future lies!

Only by changing the system, to put the present system into financial bankruptcy, to reestablish the principle of the sovereign nation-state, to reestablish the principle of scientific and technological progress, and to create systems of credit and finance, looking a generation ahead, backed by nation-to-nation state agreements, to make this work, in creating mass employment, to absorb the mass unemployment growing today, in productive ways. To create thus, around this, the concept of doing this, as a new system, and use accounting, and use money, not as an absolute standard for the economy, but as a *tool*, to assist in the administration and conduct of private relations among entities within the economy.

That change in system, that change in thinking about mankind and systems, is the key to the future. Therefore, we must stop thinking about how to fix a financial system in terms acceptable to that financial system. We must stop thinking about globalization. We must reverse globalization *immediately*, as a price of survival. You don't want to reverse globalization? Then, tell me when you intend to die! Because, with globalization, you will die. Nations will die, and people within them. It must be reversed, back to a nation-state.

So, think of the world in terms of *systems*, long-term systems, based on axiomatic qualities of assumptions by peoples and governments, respecting their internal affairs, and their relations. Return to a *physical standard* of performance. The welfare of the individual personality, the future of those personalities' children, the future of that nation, in those terms. That is what the best that modern European civilization has produced as a standard. Return to it, and take the freak-shows which have dominated the world for more than a century, since 1901, since the assassination of McKinley, and put these things aside, and say: *These were mistakes*. These *ideas* were mistakes. We must learn the lessons of history, and design *now*, with the governments we have (which are not too good, I admit), with the people we have, who are not well-educated; with all those other things—*we must survive*. Our children and grandchildren must survive. Our nations must survive. Put that foremost.

You learn the lessons of history, of centuries. The human race has probably been on this planet for 2 million years, or more. We know a little bit about prehistoric existence in crucial things. We have known much about the historical period; not enough, but much. Learn to think of humanity as something very ancient in its origin, and think of humanity in what we hope will be a much longer future than an antiquity. *Think in terms of history!* Look at what we're doing today as a system, from the standpoint of historical criticism. That's what we need to do. All the other criticism doesn't amount to anything, because it does not address the problem.

Prof. Dr. William Hankel

Today's Crisis Is More Dangerous Than 1930s

Dr. Hankel is a professor of economics at Frankfurt University, Germany, and a former board member at the Kreditanstalt für Wiederaufbau and president of the Hessische Landesbank. The following speech, entitled "A New Bretton Woods: Milestones Along The Way To International Monetary Law," was delivered to the EIR conference in Berlin, on Nov. 5. It has been translated from German by EIR. Subheads have been added.

1. The vulnerability of the West's financial system to crises of confidence, has been manifest not just since Sept. 11. That "black Tuesday" made clear to economic laymen, like a sud-



Prof. Dr. Wilhelm Hankel of Bonn, formerly chief economist of the Kreditanstalt für Wiederaufbau (Germany's Reconstruction Finance Agency) and President of the Hessen State Bank, followed LaRouche with definite proposals for urgent international monetary reorganization.

den spell of chills, what the 25-year-old globalized world economy suffers from: a progressively developing weakness of its immune system, respecting its transnational monetary system. There are national monetary systems and, now, as a replacement in Europe, a combined, European monetary order, made up of 12, soon to be twice as many currencies. But there is no global, worldwide order. And yet, this is more indispensable than ever. For, what was called, up until the 19th Century, “world economy,” was, compared to today, a negligible quantity. It was limited trade, based on few, exotic, expensive luxury and precious goods. It did not affect the domestic economies of the countries involved and their political economies. Nor did the payment for this import-export trade present a serious problem for the financial markets: One paid in stateless (“denationalized”) money, namely, in gold, or in a gold-backed currency: pound-sterling; earlier, Dutch gulden, Spanish doubloons, gold ducats from Venice, Genoa, or Pisa. One either had this money, or had credit in one of these currencies, or one did not; in the latter case, the transaction did not take place.

Since the financial markets at that time were small, transparent, and linked to concrete business or projects (real objects), and since the currencies used were related to each other through legally binding exchange rates—the currencies at that time were only a national name for a certain amount of gold (in some cases, silver as well), established through national coinage laws—there was no need for either international or supra-national agreements on exchange rates, or for fixed rules of credit, international payment, and capital trans-

fer, or international stabilization programs. One could handle matters without the IMF [International Monetary Fund], the World Bank, the G-7 [Group of Seven] or G-8 summits, and without international speculative crises. Speculation, if at all, occurred only in the third or fourth digit after the point, in the legally fixed exchange rates. The currency turnover remained within strict limits, through real transactions (trade, investments) and the credit-worthiness of the debtors. The infrequent financial crises broke out because of political crises (wars, revolutions), and not, as it is today, vice versa: that wars break out because of financial crises.

The Value Of Gold

The world has never had such a dependable and crisis-proof international monetary system, as the gold standard of the old school. Its stability did not depend on the metal, as superstition, then and now, believed. That was already a false conclusion, because gold did not bring its value into the monetary system, but rather the value of gold is derived from the actually unlimited demand by central banks for gold, for their monetary requirements: Its value came from the market, not from nature. What made the gold standard calculable and crisis-proof, was the state guarantee of exchange rates which resulted from the upholding of the coinage laws, although these coins did not play a role in daily life or in international credit. From this old-fashioned, and strongly national minting guarantee for money that had a limited circulation, a world monetary system emerged which was acceptable to all participants, highly democratic and egalitarian. It did not rest on the

power, good will, or caprice of a monetary world hegemon, but on the logic of Euclid: If all currencies are equal in reference to a third—here, gold—then they are also equal among themselves.

Only one other condition had to be given, for the system to function: a gold price which was binding for all participants—since only then would the national gold parities remain comparable and exchangeable. The Bank of England fixed and took care of this gold price for over a century (1819 to 1914). Thereby it made the pound-sterling into the international currency of the world: into a kind of gold surrogate, but not gold itself.

In this system, everything could fluctuate: the prices of goods and stocks. There was only one that could not: the price of currencies and their values, the exchange rate. Their prices did not follow any speculation of market changes. They were protected by law, through the standard of coinage and gold parity. They were like meters, kilograms, or the DIN [Deutsches Institut für Normung] norms, an officially defined and estimated relation: a unity of measure or mass, whose value and endurance everyone could depend on.

The Lesson Of The Great Depression

2. As is known, this system, following its restoration after the end of the First World War, did not fall apart by itself, but through external interventions and errors. The states of the inter-war years played foul and violated its rules, and there was no non-partisan who disciplined it or punished it with penalties. The main and fatal violation was the (initially) unlimited level of reparations imposed on Germany and others defeated in the war; the second was the continuing gold hoarding policy of the U.S.A.; and the third was England's return to the pound parity of the pre-war period (1926). The harshly criticized reparations, which Keynes called "Carthaginian," drove Germany and Austria into a politically motivated foreign indebtedness with the U.S.A. creditor, which in turn made the debt-servicing more difficult, through its deflationary policy for its debtors. When, then, England significantly exacerbated its domestic depression, through its pound revaluation (also given a thrashing by Keynes), the only choice was between accepting unemployment at home, or breaking out of (what many saw as) the prison of the gold standard. Like Sept. 11, 2001, the "Black Friday" of Oct. 29, 1929 was only the *Menetekel* on the wall, which pointed to a depression which was already there.

3. The lesson of the collapse of the gold standard, "Black Friday," and the Great Depression which dragged on until the outbreak of World War II (it was only with great care painted over in the U.S.A. through Roosevelt's "New Deal," and in Nazi Germany through rearmament and war preparations), was that one needed a new synthesis, to combine national, successful conjunctural, and employment policy, with world economic cooperation and stability. For, what use was full employment at home, for national economies of the world, if

it had to be bought with the renunciation of real income, or, worse, of individual freedom in one's own country, as in Nazi Germany?

Keynes saw the problem early, but could not solve it in his epoch-making *General Theory*. His economic and monetary nationalism, at the time, secured through flexible exchange rates, barely functioned in a big domestic economy, like that of the U.S.A., which is why Roosevelt was successful with his "New Deal." But for small, open, foreign trade-dependent economies, like those of England or Germany, which were involuntarily closed, it brought, in the best case, a temporary emergency solution: England was dependent on exports, Germany, on imports. Hitler misguided Germany's notorious currency and raw materials scarcity (in his lexicon, the scarcity of *Lebensraum*) to insane projects like autarky and conquest (annexation) of increasing zones of *Lebensraum*. He, and his advisers, did not see that the lack of outside resources was dependent on the system, not on territory. The later Federal Republic of Germany, which was smaller than Greater Germany by two-thirds, earned easily what Hitler thought had to be won by force.

Correcting Two Errors Of The 1930s

4. It was first in his "Proposals" for the later Bretton Woods conference (of 1944) that Keynes succeeded in expanding his *General Theory* through its world economic expansion. He corrected two errors of the 1930s (and also his own!):

First, flexible exchange rates do allow for defense against "imported depression," but they fight against external deflation by increasing the internal inflationary potential (through cheap money and growing state debt). Therefore there is no alternative, in an open (global) system, to fixed, dependable, almost metrical exchange rates, *à la* a gold standard. They alone provide discipline against homemade inflationary practices. Only in extreme cases ("fundamental imbalances"), may they be given up or altered.

Second, if exchange and interest rates fail as instruments of extreme current account balancing, the international credit and capital flow component must be strengthened. If the U.S.A. had functioned after 1929 as world creditor and world banker, the crisis would not have occurred. Only, no national state will—and can—play the world banker for long, with its own national currency. Therefore, in order to protect and refinance the national money and central bank systems, a "stateless" world central bank, with a stateless currency unit, proper to the system, will be required: a replacement for gold, without circulating bank notes or coins, limited to central bank credits. Keynes baptized it as "bancor."

Bretton Woods, in the original form Keynes envisioned, did not consider the U.S.A. as a world central bank, nor did it consider the dollar as a means of "last liquidity" or "bancor" replacement. But this is precisely what happened at the Bretton Woods conference of 1944. This development was facili-

tated (and legitimated) through the exodus of the Soviet Union and its satellite states at the time, the final division of the world (economy), and the Cold War. However, the extremely watered-down Bretton Woods system (watered down through the role of the U.S.A. as quasi world central bank and of the dollar as bancor replacement) did work for almost a quarter-century (until 1971-73). For all world trading nations, including in the Third World, that was a golden age, compared to today. There were high, export-led growth rates, and currency crises only at the periphery, not in the center of events. How-

The world money economy needs a constitution, which is equally binding for all global players. No one should be allowed to do more than the other or the smaller!

ever, the old Bretton Woods was a highly fragile construct: a dollar standard imitating the gold standard, in which coincidental gold findings were replaced first by generous dollar credits (Marshall Plan, development and military aid), and then increasingly through growing (and undesired) U.S. current account deficits (U.S. dollar outflows). Beginning at the end of the 1960s, the U.S.A. as world (central) banker appeared to be overextended, especially through the Vietnam War: Its increasing debts in its own currency were no longer valued equally. The U.S. dollar, no longer desired, went through devaluations, because of market and inherent dynamics. Instead of being strong as a currency, the leading currency got weaker and weaker. The readiness of dollar users to support their leading and reserve currency, sank to zero by increasing numbers of partners. The all-powerful world banker of yesterday went bankrupt, since that is precisely what the rejection of the U.S. dollar as gold replacement, or ersatz bancor, meant.

A Lawless World Economy

5. Since 1973, we have been living in a lawless world (economy) similar to the one after 1931 — but with two noteworthy differences:

- The volume of the economic turnover to be financed has exploded. Everything has increased: real world trade, direct and portfolio investments. Most of all, the volume of really uncovered, speculative transactions has grown: currency exchange, both for risk protection and for profit-making on and with risk. Billions in financial turnover, have long since become trillions, whereas only 2-3% goes into financing of real transactions.
- With the volume and weight of global financial mar-

kets, the influence of state actors (IMF, central banks), and their ability to control the climate and course of financial markets for their currencies, has shrunk dramatically. Exchange rates and interest rates are no longer policy-determined instruments, but are prices established by market expectations. Just how limited the chances to influence the markets are, which the controlling protagonists themselves admit, could be observed after Sept. 11, 2001. The 2001 annual meeting of the IMF, the World Bank, and central banks was cancelled on short notice, without having to fear any negative effects. In this point, too, “Black Friday” established clarity.

Both differences are serious. With the separation of financial turnover from the exchange of goods, the danger of a crash grows in almost incalculable dimensions. With the disappearance of control mechanisms against market collapse, the chances of avoiding a crash and its consequences for national systems, fall practically to zero. The (global and anonymous) markets rule over (national) policy—not the other way around. And, as was the case more than 70 years ago, there is the danger of deflation throughout the world economy. The global, particularly densely and intensely interconnected Western industrial nations, are condemned to import it. Initial indications show, that it has already begun to spread. Especially in the new service industries, the pressure of world competition is greater than the productivity gains, whereby the costs can no longer be fully transferred to customers. In addition, there is the fact that it is no longer possible to return to national isolated fortresses of domestic markets. World economic interconnections have become too intensive and irreversible for all partners, for them to bring them back. In contrast to the 1930s, this time there is the danger not only of the collapse of import and export products, but of the entire chain of production and value creation. The drop, back then, of 30% in real income in single economies, could be easily recovered from. And, today, it would hit a socially more demanding and therefore politically less stable and patient population and electorate, in all Western societies.

Solution Lies On The Global Level

6. What, then, is to be done? The threatening dangers, emerging from the globalization of financial markets, of first a financial, then real economic, and finally a political systemic crisis, ending in a meltdown, can be prevented only on a global scale, not on a national (the error of U.S. Republicans) or on a regional level (the error of the Europeans and other integrationists). When money (on grounds other than monetary ones) becomes a ubiquitous world trade article, then monetary world trade must be organized and regulated in a new way. This is the only way to free it from the capriciousness of a state hegemon (U.S.A.) or the anonymous gang of powerful private interests and profit hunters. The world money economy needs a constitution, which is equally binding for all

global players. No one should be allowed to do more than the other or the smaller!

The reference point for such a regime is, and remains, the Bretton Woods concept in its original Keynesian form of 1944. The U.S.A. must be convinced that it is not, and cannot be the world central banker, but the IMF, independent from it, is. The IMF is, or should be, built up, from a fund dependent on refinancing, into a central bank which creates its liquidity on its own, whereby their credit money—by then, not the *bancor* but the SDR [special drawing right]—represents not the currencies of the nations, but rather their internal and settlement money in international central bank transactions. The SDRs do not replace national money, as does the euro. They simply make it internationally accountable, stable in exchange rates, and convertible, like the money of earlier national currencies. Only that in this SDR standard, the national currency institutions (central banks) and currencies are maintained, and with them a large part of national state currency autonomy. One would thus maintain a far-reaching, albeit not total freedom in national conjunctural, employment, and structural policy, which would allow nation-states to fulfill the expectations of their citizens for stable jobs and adequate incomes.

The world central bank is no enemy of national democracies, like, for example, the European Central Bank, which, with the euro and common exchange rates and interest rate policies, no longer allows for economic, monetary, and financial policies oriented to national needs.

With this world monetary reform, one would avoid from top to toe, the central, morally contradictory errors of the current dollar standard, whereby a country can go into debt without limits, and communicate to the rest of the world the fate of inflation and deflation. While it demands freedom and surplus for itself, it asks others to adapt to the U.S.-steered world inflation or deflation! One would avoid the errors of the Europeans, who believe they can confront the dangers of globalization with a common currency, and do not see, that their integration is nothing but another word for their own, homemade globalization: for an unlimited domestic market and an unlimited common currency, which endangers their industrial capabilities, threatens their historically developed social state, pulls their labor markets out from the supervision of social lawmakers and trade unions, and, instead of leading Europe into the future, throws it back into the horse-and-buggy era, as the gold standard forbade every active fight against depression, as well as structural and employment policy. With a Bretton Woods system revised in this way, the world (economy) would take a huge step forward in the direction of reliability of its global markets, as well as its national political structures. It would be a milestone along the long way from Kant's "Perpetual Peace" to "world citizens' intention" (1795). The New Bretton Woods would bring about what has been called for in vain for more than 200 years: international

monetary law. It would eliminate the weeds that have existed on the money and financial markets since 1973, and would pull out of globalization, the poisonous tooth of incalculability and spreading crisis. It would be an attempt to become smarter, without incurring damage, and only using insight and enlightenment.

Dr. T.I. Koryagina

The World Economic And Financial Crisis, Before And After Sept. 11, 2001

Dr. Tatyana Koryagina is a Doctor of Economic Sciences and an economist at the Institute for Macroeconomic Research of the Russian Ministry of Economics and Trade Development. The following presentation was prepared for the EIR seminar in Berlin, on Nov. 5, at which she delivered excerpts orally. Subheads have been added.

Our seminar today is devoted to a problem, which has been of ongoing concern to the specialists, associated with *EIR* and Lyndon LaRouche. It was Lyndon LaRouche, who first, and in a very polemical form, forecast that the collapse of the world economic and financial system was imminent. He also proposed a system of measures to overcome the negative consequences of this economic and financial apocalypse, including through the establishment of a New Bretton Woods order.

For Russia, there was a milestone in the analysis of the world economic and financial crisis, with the Parliamentary hearings at the State Duma of the Russian Federation, which took place on June 29 of this year. Why were those Moscow discussions so important? In my view, the main result, achieved by the organizers of the hearings, was to breach the thick wall of silence, which has surrounded the real state of affairs in the world economy, and the U.S. economy in particular. The speeches and presentations, made from the rostrum of those Parliamentary hearings, sounded a stern warning about the onrushing planetary danger.

In my own testimony on that occasion, I specified a date for the beginning of the crash of the dollar and the U.S.A.—Aug. 19. The barrage of denials, which the liberal press threw against our forecast, showed that the forecast was a big threat to the people who promoted Russia's enslavement as a mindless supplier of natural resources to world markets, by the implementation of the liberal economic doctrine, and the total