Editorial

What Is the Dollar's Value?

With the U.S. dollar sinking like a stone—on May 10 at about $1.15 to the euro, vs. $1.06 three weeks earlier—the viability of the whole dollar system is being called into question. What can be done to save the dollar? Should the dollar be saved?

In a sense, those are both the wrong questions. What is essential is to restore the relationship between the dollar and the physical economy. From that standpoint, the current collapse of the dollar is totally lawful *and* correct: It reflects the disintegration of the U.S. economy! What has upheld the dollar over the last 30 years was the international looting game, enforced by brute power, despite the increasing, virtually unprecedented indebtedness of the United States. And that system of looting should come to an end.

While Lyndon LaRouche has forecast the inevitability of this development for some years, so have some others. One Kenneth Rogoff, an economics professor who is now the Chief Economist of the International Monetary Fund, warned back in August of 2000, that the dollar could well collapse by 50% in the short term, due to the growing current account deficit. Thus, when Rogoff told a *Washington Post* columnist on May 8, 2003 that a large drop in the dollar's value "might lay bare weaknesses in the financial system," by causing severe losses to major market players with derivatives portfolios and hedge funds, he was well aware that this collapse reflects a *systemic* problem, not some short-term "market" consideration.

For the most part, Washington policymakers, in and around the Bush Administration, appear blissfully ignorant of the dangers of the dollar, and economic, weakness. Not so with many other national leaders, some of whom have been speaking out about establishing alternatives to the dollar system.

There are now preparations and moves all over Asia to lower dependency on the dollar. About 80% of worldwide foreign exchange reserves are held by Asian central banks, and these banks are very much concerned about "the weak U.S. economy, Washington's aggressive foreign policy, and the ongoing corruption scandals" in the U.S. corporate sector and at Wall Street banks. Last September, several Asian governments set up task forces, in cooperation with European governments, to advise central banks how to diversify their foreign exchange reserves and how to issue international bonds denominated in euros, not dollars.

Mahendra Siregar, advisor to the Indonesian Finance Ministry, confirmed that the country is considering introducing the euro as a currency for foreign trade. "Many institutions in Indonesia are studying this idea," he said.

According to Singapore's *Business Times*, the central bank of Indonesia has recently quietly replaced 15% of its dollar-denominated foreign exchange reserves—in total $33 billion—with euros.

All these efforts, states the German business paper *Handelsblatt*, have a political background, in view of U.S. pressure on Asian governments to support the war against Iraq. All the capitals in the region are unhappy about this pressure, and one way to react to it is by lowering dependency on the U.S. currency.

Such maneuvering, however, will not solve the fundamental problem. What is required for the world, and the United States, is the very same policy, the one outlined by leading American economist and politician Lyndon LaRouche: The United States must pull together an international conference to discuss a general monetary and economic reform, which will set up a New Bretton Woods system, one based on sovereign nations making arrangements for a set of stable currency exchange-rates, and for long-term economic agreements for economic development.

Such a policy, combined with bankruptcy reorganization, will promote economic growth within the United States, and for the rest of the world. The dollar will be strengthened because the U.S. economy begins to produce again—but not at the expense of other currencies, or economies. Indeed, this is the only way in which the dollar will come out of the current crisis with any value—the value of contributing to the general welfare of the world economy.