

Call for New Bretton Woods Now Published in Tehran

The publication of Dr. Abbas Bakhtiar's analysis of the U.S. financial crisis, and call for a New Bretton Woods, which we reprint below, from the English-language Tehran Times of June 19, reflects an accelerating debate and discussion within the Eurasian land-bloc about alternatives to the current bankrupt U.S. dollar-based financial system. Dr. Bakhtiar's article was first published in www.pravda.ru, and has appeared on a number of other websites as well.

It is especially relevant that the publication in this prominent Iranian paper, occurred in the immediate aftermath of the meeting of the Shanghai Cooperation Organization (SCO), which was attended by all the leading Eurasian powers, including Iran's President Ahmadinejad, as an observer. That summit meeting, comprised of countries amounting to more than half the human race, devoted a significant amount of attention to economic questions, including the development of infrastructure projects included in the great project called the Eurasian Land-Bridge (see EIR, June 23).

Among the heads of state playing prominent roles at the SCO meeting was Russian President Vladimir Putin, who stressed the group's commitment to the economic development of Central Asia, and then followed up with a bilateral meeting with the president of Kazakstan, Nursultan Nazarbayev. Putin and Nazarbayev signed a joint statement and agreed to establish a Eurasian Development Bank headquarters in Almaty, Kazakstan. The bank will have authorized capital of \$1.5 billion, which Putin said would be used to "start practical activity" in what they called the Rusasian Economic Community, which includes Russia, Kazakstan, Kyrgyzstan, Tajikistan, and Belarus.

In the buildup to the G8 summit, scheduled to occur in St. Petersburg in July, President Putin is determined not to provoke the insane government in Washington, with direct confrontation. But the Russian government has held confer-

ences where new currency arrangements have been discussed, in the context of the weakness of the U.S. economy and dollar, and the pattern of Russian activity reflects the fact that President Putin would like to get the United States to accept a new relationship to the world economy.

The problem, of course, is that Putin and the SCO do not have a sane U.S. government to deal with. That is something which Lyndon LaRouche, who has been the prime mover behind the campaign for a New Bretton Woods based on national sovereignty, and the Eurasian Land-Bridge, is determined to provide.

The Coming Financial Crises?

by Dr. Abbas Bakhtiar

On May 17, the Dow Jones plunged 214 points to 11,206—its worst point drop since March 2003. The downward trend is a warning sign of troubles ahead.

This sudden drop came as a complete surprise to the unfortunate small investors and speculators. The so-called "experts" point at the sudden threat of inflation as the main cause of the recent reversals in the markets.

What is actually surprising is the surprise of the "experts." A cursory look at the United States' finances will reveal the amount of pressure that its economy is under.

When Bush became President in 2001, the United States' public debt was \$5.8 trillion. Today the public debt stands at \$8.3 trillion. Of this, over \$2.2 trillion is held by foreigners. The United States has a GDP of \$12.4 trillion. This gives the U.S. a debt/GDP ratio of 66%, placing it in 35th place (out of 113) on the ranking of the debtor nations. The current account

deficit of over 7 percent has long passed its danger levels of 4-5 percent. In 2005, the U.S. government paid \$325 billion in interest payments alone.

Then there are the future obligations such as Medicare, Social Security, and government pensions. These obligations amount to \$54 trillion. This huge problem worried former Federal Reserve Chairman Alan Greenspan. In Autumn 2004, he told Congress: "As a nation, we may have already made promises to coming generations of retirees that we will be unable to fulfill."

One would think that this amount of debt would worry the President and the Congress. But apparently it does not. The U.S. Congress voted to increase the Federal debt limit to \$9 trillion in March 2006. Any other nation in similar circumstances would have had to approach the IMF for help. The IMF would then have forced that nation to cut spending and devalue its currency. But the United States does not need to do this. The U.S. can just print more dollars. But how long can this continue before the world loses faith in the greenback, sending it crashing to unimaginable levels?

The Asian Lender

Asian countries such as Japan, China, and others that hold most of the U.S. debts have been happy to indulge the American deficit spending. This has been a two-way street, as America has kept its market open to their products and they have financed the Americans' spending.

The value of the U.S. dollar so far has been kept artificially high by Japan, China, and oil-exporting countries. These countries, by buying U.S. debts, have kept interest rates relatively low in the United States and allowed Americans to keep spending even as their debts mount.

But there is only so much risk these lenders are willing to take. Any serious devaluation of the dollar will considerably reduce the value of their national reserves (mostly kept in dollars) and the value of their debt holdings (certificates, bonds, etc.). At the same time, the devaluation will affect their exports to the U.S. A weaker dollar makes their products more expensive in the U.S., thereby reducing their export earnings. Most Asian countries keep up to 70 percent of their reserves in dollars. China, with reserves of over \$800 billion, has already begun to slowly reduce its dependency on dollars by converting part of its reserves to other currencies.

If other Asian countries—with their vast dollar holdings—follow suit, then it will be disastrous for the value of the dollar. No one is interested in holding a weakening currency.

Another threat against the dollar comes from countries such as Iran and Venezuela. Iran recently put in motion plans to register an oil bourse to compete with bourses in New York and London. The threat comes from the currency in which the oil is to be sold, the euro. Iranians are going to make the euro the standard currency for oil transactions. Some sympathetic countries such as Venezuela and others may join in. If the

Iranians succeed in this, the pressure on the dollar will be catastrophic. Nearly every country has to hold a certain amount of dollars in reserve for oil purchases. If the dollar continues to weaken in value, and there is the possibility of purchasing oil in euros, then these countries would unload their dollars for safer currencies such as the euro. What will then happen to the value of the dollar?

As though there is not enough pressure on the dollar, the U.S. government keeps spending money in an unwinnable war in Iraq. The total cost of the Iraq war, including the future payments to disabled soldiers, the replacement of equipment, etc., is estimated to be between \$1 and 2 trillion.

The tense situation in the region will keep oil prices at uncomfortable levels, contributing to both a reduction in U.S. growth and an increase in its deficit.

The current American deficit and its long-term financial obligations, if left unanswered, will sooner or later lead to either a marked increase in interest rates or a substantial devaluation of the dollar. On one hand, a substantial increase in interest rates will lead to a major recession in the U.S.A. which will be felt immediately around the world. On the other hand, a substantial devaluation will cause global financial chaos. What is needed is a serious reconsideration of the international role of the dollar as the world currency. In other words, we need a new Bretton Woods Agreement.

At the end of World War II, 45 nations gathered at a United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire to address the problems of reconstruction, monetary stability, and exchange rates. The delegates agreed to establish an international monetary system of convertible currencies, fixed exchange rates, and free trade. To facilitate these objectives, the delegates agreed to create two international institutions: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank). An initial loan of \$250 million to France in 1947 was the World Bank's first act.

Since then there has already been considerable criticism of the roles of the IMF and the World Bank. The abovementioned problems and the ongoing trade imbalance in the world have to be addressed by a similar gathering. Sooner or later, both the United States and the rest of the world have to address the existing problems. This problem is not the United States' alone. We can not ignore the largest economy on earth. It is said that if the United States sneezes, the world catches a cold. We have to either make sure that the United States doesn't catch a cold or vaccinate ourselves against it.

Dr. Bakhtiar lives in Norway, and is currently writing a book about the reasons behind the U.S. involvement in Iraq and Iran. He's a former associate professor of Nordland University, Norway, reachable at Bakhtiar@space-articles@yahoo.no. His article, written on May 19, is reprinted with permission.