II. LaRouche Principles for De-Dollarization

Some LaRouche Essentials for Transition to a New International Financial System

by Dennis Small and Mary Jane Freeman

June 7—There is widespread international recognition that we are witnessing the demise of the global floating-exchange-rate financial system established a half-century ago, after Aug. 15, 1971—a system which has disgorged a $2 quadrillion speculative bubble, side-by-side with cruel looting of the physical economy of the so-called North, but especially of the Global South. It is also evident that a new system is arising, with intense discussion in the Global South about how to set up a de-dollarized system, for example around an expanded "BRICS Plus" association of nations; while the subject of a return to Glass-Steagall in the United States and Europe is back on the agenda—as we document in the chronologies below.

The upcoming August 22-24 summit of the BRICS nations in Johannesburg, South Africa could well be a decisive inflection point.

But there is also widespread confusion over some physical-economic essentials, long elaborated by Lyndon LaRouche, without which the transition to a new international system will be chaotic at best, and can unleash nuclear World War III at worst. The essentials are summarized in LaRouche's "Four Laws" and his "Trade Without Currency," among other locations.

Stated simply: It is necessary, but not even close to sufficient, to abandon the sinking financial *Titanic*. The central questions that such first, required action poses are: What kind of life boats will replace the *Titanic*? How are they constructed, and what ultimately keeps them afloat? And where are they sailing?

There are three, central criteria that the new system and its currency must meet:

1. Total separation between the new currency and participating national currencies, on the one side, and the predatory, toxic dollar on the other, i.e., no free convertibility between them. Exchange and capital controls become essential tools to achieve that result. For the United States, this means a return to Glass-Steagall, with its strict separation between productive credit and speculative activity.

2. A fixed exchange-rate relationship between and among those participating national currencies and the new currency. Floating exchange rates have been a tool of financial speculation since August 1971, and they are anathema to long-term trade and investment cooperation among sovereign nations.

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Lyndon H. LaRouche, Jr.

3. Productive credit must be issued in that new currency to finance great development projects, with a heavy emphasis on science and advanced technologies, in and among participating nations, to quickly boost the physical economies and thereby provide the only possible solid backing for the val-

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ue and stability of the new currency. Think Alexander Hamilton.

John Trumbull

Alexander Hamilton

Back to FDR's Glass-Steagall

A useful entry point for the discussion and elaboration of these three criteria is to recognize that a return to Franklin Roosevelt's 1933 Glass-Steagall Act in the United States, or bank separation as it is known in Europe, is essentially the same policy as the Global South's current drive for "de-dollarization." They are both ways of jumping off the sinking *Titanic*. In both cases, the speculative, London-based dollar is abandoned and walled off, while each nation's national banking system is rebuilt on non-speculative assets, and on investment in non-speculative productive activity, thereby *de facto* creating a new currency. In the case of the United States, this "new currency" would take the form of a return to the productive U.S. dollar—or Lincoln's greenback—as distinct from the speculative London-dollar, or "Londollar," which rules the trans-Atlantic financial sector today.

Such an approach, and only such an approach, opens the door to a working alliance between the Global South and a United States rid of the domination by Wall Street and City of London interests. This is the United States of George Washington, John Quincy Adams, Abraham Lincoln, Franklin Delano Roosevelt, and Lyndon LaRouche. Such a working alliance is the only sure basis for war avoidance and universal development.

With those concepts and criteria in mind, consider this summary overview of the highlights of recent discussion and actions worldwide around Glass-Steagall and de-dollarization.

Sanctions Provoke De-Dollarization

Immediately after President Vladimir Putin announced Russia's Special Military Operation (SMO) of Feb. 24, 2022, Western sanctions against Russia were ratcheted sharply up: Some $300 billion of Russia's foreign reserves, the part held abroad, was summarily seized; trade was blocked; and London and Washington endeavored to force Russia to default on its debt obligations. The "ruin" of Russia was declared the strategic objective.

It should be emphasized that the sanctions regimen against Russia (and other countries) was in force long before Feb. 24, 2022—as we document in the chronology below. In fact, as far back as July 31, 2014 the Council of the European Union had adopted Council Decision 2014/512/CFSP, which called on member nations to "prohibit transactions in or the provision of financing or investment services … issued by state-owned Russian financial institutions." The resolution also prohibited "the sale, supply, transfer or export of certain sensitive goods and technologies" to Russia.

Just as Russia's SMO was not "unprovoked military aggression," but rather the result of 30 years of NATO expansion eastward (violating explicit official promises given to the Soviet Union and Russia), which dramatically escalated after the 2014 *coup d'état* against the democratically elected Yanukovych government of Ukraine; so too the Global South's steps toward de-dollarization are also not a matter of "unprovoked economic aggression" against the United States and its currency. Rather, they are survival measures adopted in defense against economic and financial warfare, responding to explicit statements by U.S. and other officials that their goal is to "reduce the ruble to rubble" and make sure the Russian economy is "cut in half" (President Joe Biden, March 26, 2022) and "ruin Russia" (German Foreign Minister Annalena Baerbock, Jan. 24, 2022).

Perhaps most shocking and revealing were the well-publicized comments by two unnamed White House

White House/Adam Schultz

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President Joe Biden has not "reduced the ruble to rubble," nor has German Foreign Minister Annalena Baerbock seen the "ruin of Russia" she announced 18 months ago. Rather Russian President Vladimir Putin has catalyzed a de-dollarization process made necessary by the sanctions of the U.S. Treasury and the European Union.

"senior administration officials" at a background press briefing Jan. 25, 2022, detailing "the severity of the economic consequences we can and will impose on the Russian economy," including "an atrophying of Russia's productive capacity over time … [to] hit Putin's strategic ambitions to industrialize his economy." The two officials threatened that the United States, the UK and Europe "are unified in our intention to impose massive consequences that would deliver a severe and immediate blow to Russia."

This was one month *before* Russia's SMO began.

The dollar itself was quickly weaponized. On Feb. 24, leading Russian banks were put on the sanctions list, making it impossible for them to conduct business with the West. On Feb. 26, some $300 billion in Russian foreign reserves held in Western banks was seized—with the stated intent of expropriating it outright. On April 4, the U.S. Treasury took steps to make it impossible for Russia to make payments that were coming due on its foreign debt, in an effort to force an involuntary default with all of its consequences. On June 3, nearly all Russian banks, with only a handful of exceptions, were banished from the SWIFT international financial communications system—the long-threatened "nuclear option" designed to destroy the Russian financial system and economy altogether, by decoupling it from the West.

Throughout this period, Russia was denied access to Western technology, capital goods, and other economic inputs, in the stated expectation that this would plunge its economy into depression, create social chaos, and ultimately lead to the overthrow of President Putin.

The EU has marched in lockstep with the United States and UK on the sanctions policy from the very beginning, enacting 10 sets of measures since February 2022, with an 11th now under review.

Nor has Russia been the only country targeted with sanctions and related economic warfare. Others include China, Iran, Venezuela, Syria, Afghanistan and North Korea. In the case of Syria, the June 2020 Caesar Sanctions have been instrumental in destroying the Syrian economy, and leading to today's 90% poverty rate in that country. In Afghanistan, the U.S. also "froze," i.e., stole, nearly $9.5 billion in assets belonging to the Afghan central bank and stopped shipments of cash to the nation immediately after the Aug. 15, 2021 fall of Kabul, depriving the country of the minimal resources needed to alleviate hunger and even the deadly famine sweeping the country.

For good reason, Schiller Institute founder Helga Zepp-LaRouche on July 19, 2022 called for sanctions

against Russia and other targeted nations to be immediately lifted:

> The sanctions against Russia, but also all the other countries against which they have been imposed for years for geopolitical reasons—Iran, Venezuela, Cuba, Afghanistan, Syria, Yemen—must be ended immediately! Sanctions, under the conditions of world hunger, pandemic, and hyperinflation, mean genocide for developing countries, and suicide for our industry and agriculture!

This entire avalanche of sanctions was imposed on top of decades of debt looting of the Global South by the City of London and Wall Street. Small wonder, then, that the vast majority of the Global South now considers the dollar an unreliable currency, which is toxic and destructive. Small wonder that calls (and actions) for "de-dollarization" are spreading quickly across the Global South—as we also document below.

As the ratcheting up of sanctions came heavily into play in early 2022, the U.S. Federal Reserve began raising the Federal funds rate dramatically: On March 18, 2022, the first quarter-point rise occurred, and 2022 ended nine months later with the Fed rate at 4.33%.

The combination of these two processes brought to the surface a long-simmering discussion in the Global South about how to get out from under the toxic dollar system. Then on March 10, 2023, the U.S.'s Silicon Valley Bank failed, followed by Credit Suisse of Switzerland on March 19, and the implications of these bank failures led to a parallel discussion about Glass-Steagall in the United States and Europe.

Strengths and Weaknesses of Deliberations to Date

By and large, 2022 was a year in which there was a significant increase in discussion and policy studies around de-dollarization, with Russia, India, and China not surprisingly leading the way. But, with very few exceptions, actual concrete action in that direction began to be taken only in 2023, and those actions have continued to accelerate to date. On Glass-Steagall, the bank failures in the United States and Switzerland in March 2023 revived a discussion of that policy (mainly in Switzerland and the United States, predictably), the high point of which was the reintroduction of a Glass-Steagall bill to the U.S. Congress by Rep. Marcy Kaptur (D-Ohio) on April 19, 2023.

The strength of such discussions has been that fundamental changes are being seriously considered. The global sanctions regimen—especially as applied to Russia—made it clear that: (a) the toxic "Londollar" was no longer a trustworthy international reserve currency; and (b) the sanctions had failed, including the so-called "nuclear option" of banishing nations from the Belgium-based SWIFT international bank settlement system. It turned out that the City of London and Wall Street have more bark than bite—except, of course, the very real threat of the use of overwhelming military force to impose their will on subject nations, up to and including nuclear war with Russia and China.

But the weakness of the deliberations to date, in both the Global South and the West, has been that both sides remain largely unclear about what it takes to provide solid backing to that new currency: i.e., what is the true source of economic value. There has been too much tinkering with financial technicalities, and too little thinking about the scientific principles of physical economy. As important as it is to have trade settlements in local currencies; as important as it is to set up non-dollar swap facilities and even full-fledged clearing houses; the decisive issue is to be able to issue non-dollar Hamiltonian credit for productive infrastructure and other investments—and that goes for the United States and Europe as much as for the Global South.

For example, take the case of Ibero-America. The only way the Argentina-Brazil-BRICS *vs.* IMF conundrum (see below) will be solved, is by getting China's Belt and Road Initiative actively underway in the region—to put "shovels in the ground" and start building the long-awaited bi-oceanic rail corridor(s) across the continent, in particular, based on multi-billion *non-dollar* credit lines. The value of those credit lines, and of the currency in which they are issued, depends entirely on the *intent* of the governments in question to develop the productive powers of labor, the "potential relative population density," as Lyndon LaRouche proved in his groundbreaking paper in 2000, "On a Basket of Hard Commodities: Trade Without Currency."