Editorial

The End of an Era

Since August 1971, when the Nixon Administration inaugurated the floating exchange rate system, the United States has been living with apparent impunity, at the expense of the rest of the world. Beside the United States' role in dictating currency rates, interest rates, and other terms of trade—through both raw power and its role with the International Monetary Fund—the major way in which the United States survived the takedown of its own economy, was through the maintenance of a trade deficit in physical goods, and the current account deficit, which has grown steadily in recent years, to the level of well over $400 billion a year.

If any other nation had attempted to maintain such a deficit, the IMF would have been down their throat. Cut imports, cut budgets, and on, and on, and on. But this was the United States, the world's largest economy, and the world's largest debtor, and it was able to attract the capital inflow from all over the world to cover over the deficit, and to keep going.

The inflow required to sustain these deficits was truly staggering, reaching more than $1.5 billion per day. That money went into the stock market, into U.S. Treasuries, and into agency and corporate bonds.

But, as of the first quarter of 2002, this situation has changed. Between the last quarter of 2001, and the end of March, 2002, foreign capital inflows into the United States dropped by a whopping 55 percent!

The figures coming from the U.S. Department of Commerce fill out the picture. Foreign purchases of stocks fell from $33 billion to $25 billion; foreign purchases of U.S. corporate and agency bonds fell from $66.3 billion to $45.4 billion; but the most rapid rate came in the area of U.S. Treasuries. Foreign buyers not only turned away from Treasury bonds, but a net $5.7 billion worth of U.S. Treasuries were *dumped* between the fourth quarter of 2001, and the first quarter of 2002.

Going along with this process is the rapid collapse of the U.S. dollar, particularly against the European currency, the euro, and the yen.

Those who might console themselves that this shift might bring more "balance" to the world economy, as the United States is cut down to size and capital begins to flow into other parts of the world, should think again. What is happening here is the collapse of the currency upon which the entire world economy has been based. It occurs amid a level of total world indebtedness, and a collapse of world production and trade, which threatens the physical existence of nations, and huge sections of mankind. No one is going to "benefit" from the implosion of this system, *unless* a totally new worldwide credit system, directed toward creating economic growth, is put in in its place.

The creation of just such a credit system has been the proposal of U.S. statesman and economist Lyndon LaRouche, Jr. since 1975. More than 10 years before that, LaRouche had forecast that the U.S. economy would be headed into depression starting in the late 1960s, if the shift from a producer to a consumer society, which began in the 1950s, were continued. In 1971, LaRouche went further, and forecast the emergence of a global fascism, should the floating exchange system of looting, initiated in 1971, not be replaced with a new system of fixed exchange rates, and of new mechanism for long-term, low-interest loans for infrastructure projects and major economic development.

LaRouche has, of course, maintained his warnings, and renewed his proposals, culminating in his call for a New Bretton Woods System in 1997. LaRouche's forecasts of an ultimate collapse of the U.S. economy and currency—despite the lack of any other superpower to challenge the United States—has been often repeated. At this point, with the dollar poised for a collapse that could go as far as 40-50%, and the U.S. economy headed for a hyperinflationary shock, as prices on imports go through the ceiling, LaRouche is the only world leader with any credibility on the subject of the economy.

The post-1971 era is dying, but there is no reason to mourn it. It's time to forge a new monetary system based on cooperation among sovereign nations for *production.* That system will be in the interest of all nations, and put us on the path to progress once again.