

China in a Changing World

by Lyndon H. LaRouche, Jr.

The following keynote address was delivered to a special meeting of the Institute of Sino Strategic Studies in Whittier, California on Aug. 17. The meeting was called by the institute specifically to hear the views of Lyndon LaRouche directly, as they have been already for some time widely discussed in the Chinese-language press in the United States, and in China. The Consul General of the People's Republic of China in Los Angeles attended, as did leading political and intellectual figures of the Chinese-American community, and representatives of the media, who had also attended a press conference called by the Institute for Mr. LaRouche the previous day.

The People's Republic of China is now reassessing the impact of a rapidly changing world upon its future for the decades ahead. The questions posed include the combined effects of an accelerating crisis of both the monetary-financial and economic systems of the world, a crisis which was already in progress before the January 2001 inauguration of U.S. President George W. Bush. China is also faced with ominous,

continuing shifts in the general strategic situation, since Sept. 11, 2001.

Even if solutions for the present global monetary-financial crisis are put into effect, the decade ahead will be a difficult one for all of the world's national economies. The world could never return to the recent past. We can, and must rebuild the world economy, but rebuilding means adopting new policies, and moving in different directions than the U.S.A. and International Monetary Fund have led the world during recent decades.

Origin and Character of the World Crisis

Let us consider three points, briefly. **First**, the world crisis. **Second**, the available systemic solutions for that crisis. **Third**, what those solutions would mean as opportunities for China.

First, consider the principal features of the way in which the present world crisis occurred.

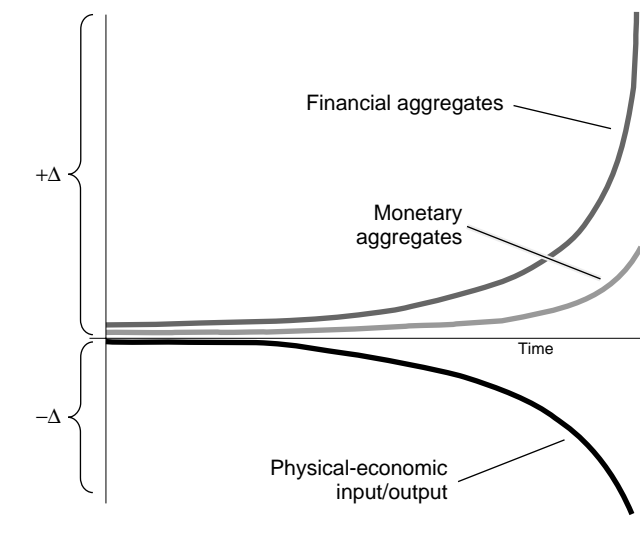
Over the period 1933-1945, the United States led by its President Franklin Roosevelt, steered through both a general



Lyndon LaRouche keynoting the Institute's "Seventh Annual Conference on the Re-Emergence of China," Aug. 17 in Whittier, California. With him is Institute leader Dr. Tie Lin Yin. Some 75 political leaders, scholars, and representatives of Chinese associations tied to both the Republic of China and Taiwan, attended.

FIGURE 1

A Typical Collapse Function



economic recovery and a great war. Shortly after the untimely death of that President, the U.S.A. emerged from that war as, in fact, the only world power of that moment. Although President Roosevelt's intention to decolonize the world was not carried out by his successors, the Americas, Western Europe, and Japan benefitted greatly from those aspects of President Roosevelt's policies which were built into the 1945-1964 phase of the Bretton Woods monetary system. There were many injustices within that world system, but the system produced great net growth in the world's real economy.

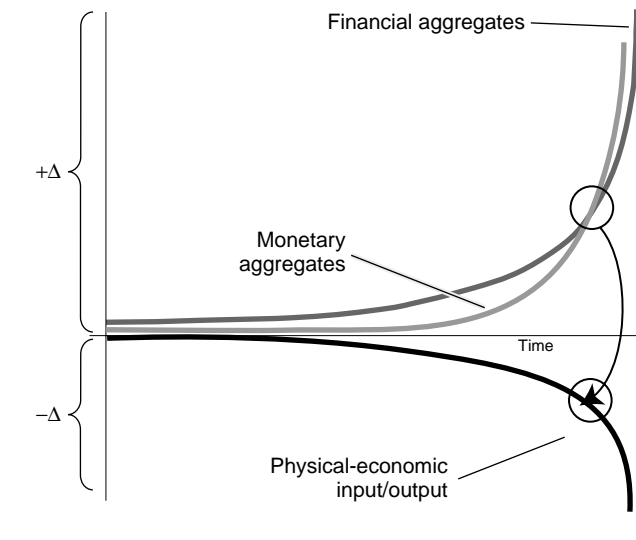
From about the same time as the onset of the U.S.A.'s 1964-1972 war in Indo-China, U.S. policy began a series of dramatic shifts away from both the economic policies of 1933-1964 and the traditional military policies applied during 1941-1945. Over the interval 1964 through January 1981, three radical shifts were introduced to the policies of the United Kingdom and U.S.A. The first, was a shift from a producers' society toward a so-called "post-industrial," "consumer" society, led by the U.K.'s Harold Wilson government. The second was the destruction of the 1945-1964 Bretton Woods monetary system, by the action of President Nixon, creating a "floating-exchange-rate" system, on Aug. 15, 1971. The third, was the drastic shift to destruction of the U.S.A.'s own infrastructure, agriculture, and manufacturing, launched under National Security Advisor Zbigniew Brzezinski during 1977-1981. This process was accelerated following the 1989-1991 collapse of Soviet power.

To illustrate the results of these three shifts, I have provided five charts, as follows.

Figure 1 is one I first introduced to a 1995 Rome conference. This is a purely pedagogical showing of the general

FIGURE 2

The Collapse Reaches a Critical Point of Instability



characteristics of the changes in the economy of the Americas, Europe, and Japan over the interval from the 1966-1967 monetary crises of British sterling and the U.S. dollar, to approximately the present time. The chart is described as follows.

From left to right, the chart represents the interval from 1966 to approximately 2000.

The lower, downward-sweeping curve, represents a net decline in per-capita rates of physical output of the combined economies. The upper of the three curves, represents increase of nominal valuation of financial aggregates. The middle curve represents the infusion of sundry varieties of monetary aggregates used to facilitate the inflation of the financial bubble.

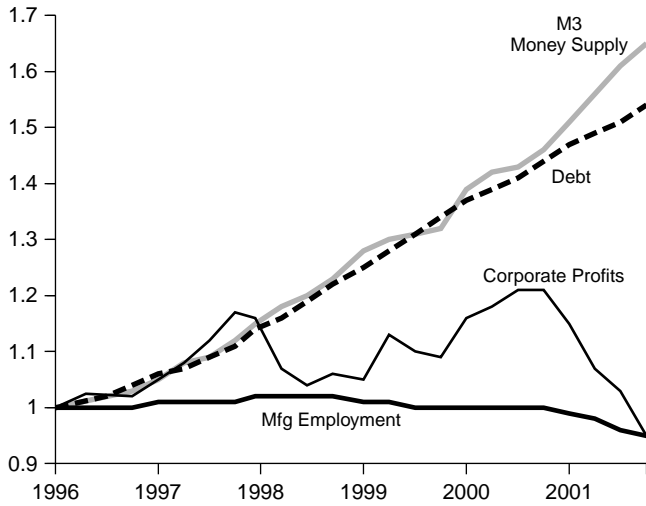
Figure 2 is also pedagogical. However, it reflects a change, estimated to have occurred during the Spring of 2000, in the relations between rates of growth of monetary and financial aggregates. From that point on, to the present, the amount of monetary aggregate supplied to support financial assets, must exceed the valuation of the financial assets subsidized in this way. This cross-over is of the same type as that which occurred in Weimar Germany during the interval of approximately June-July 1923. This cross-over was the launching of the hyper-inflationary skyrocket which destroyed the reichsmark in October-November of that same year.

Figure 3 represents *actual data* for a period corresponding to the portrait given in the second chart.

Figure 4 shows, simply the curve of hyperinflation in 1923 Germany. **Figure 5** compares 1923 Germany with trends in the U.S. dollar today.

FIGURE 3

The U.S. Economy's Collapse Function Since 1996



Source: EIRNS.

That illustrates the core of the causes for the world's presently exploding monetary-financial and economic crises. The present crisis is not conjunctural; it is systemic. It is the present system itself which has created this world crisis, over a period of about thirty-five years. There is no solution for this crisis without replacing that system. So, similarly, empires and dynasties have fallen in the past, and entire cultures have even disappeared.

To Avert Threat of a New Dark Age

If the system is not changed, the following world scenario is virtually inevitable.

When we consider the ratio of combined regular and irregular financial indebtedness, including all categories of financial derivatives and so-called "junk bonds" built into world finances as a whole, the ratio of financial debt to real value added in the world today is comparable to the debt-ratios which collapsed the Lombard banking system during the middle of Europe's Fourteenth Century. The effort of financiers then, to collect the full value of the financial debt, plunged Europe into what historians study as a "New Dark Age," during which an estimated one-third of Europe's population was wiped out. When that comparison to today's world is made, two facts should be clearly seen. First, that only a change from the world's present monetary-financial system would save civilization. Second, why some powerful financial special interests are desperate in their determination to resist establishing a new monetary-financial system.

There is a solution for this crisis. In my view, there are

FIGURE 4

Reichmarks in Circulation in Weimar Germany Grew 100 Million Times, June-November 1923

(logarithmic scale)

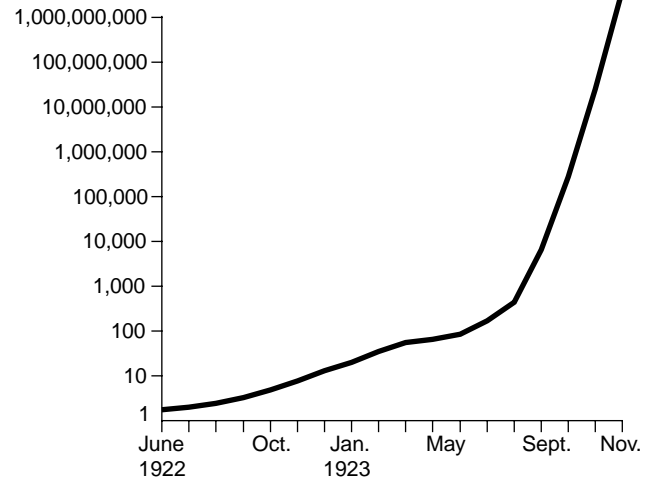
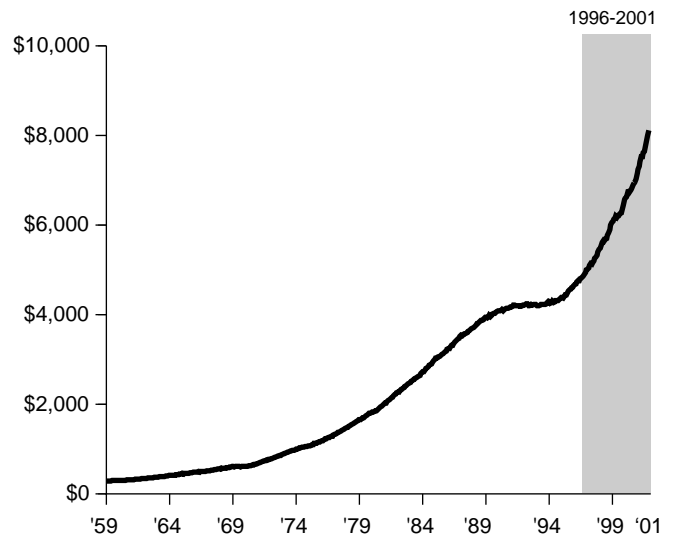


FIGURE 5

Dollars (M3-Money Supply) Circulating in the U.S. Begins Hyperinflationary Growth, 1996-2001

(\$ Billions)



Source: Federal Reserve

three steps which must be taken to find a way out of the presently deepening, combined, monetary-financial, economic, and strategic world crisis.

Step Number One: Use the relatively successful experience of the 1945-1964 Bretton Woods system as a model of reference for establishing a new world monetary system. This means a fixed-exchange-rate system, operating among economic-protectionist policies adopted as treaty-agreements between and among nations.

Such a proposal has been endorsed by groups of leading parliamentarians in Italy and elsewhere.

My personal estimate is that this might price monetary-reserve gold at somewhere between \$800 and \$1,000 a troy ounce; I may be underestimating the price, but the estimate illustrates the point. This means reorganizing the world's trade and physical economy around long-term credit in the order of a quarter-century in maturity and at borrowing costs not in excess of 1-2% simple-interest rate, for development of basic economic infrastructure and special-priority other projects.

Establishing such a new system would require intervention by, and cooperation among perfectly sovereign national governments, to put the existing monetary-financial system through government-directed bankruptcy-reorganization. This action would be governed, from the outset, as it was in President Franklin Roosevelt's measures, by the constitutional principle of natural law called variously "the general welfare" or "the common good." All essential employment and production, and payment of pensions, must continue in a customary form. Levels of production and distribution of physical goods and professional services must be sustained. Immediate measures to increase employment must be launched, with state-backed credit, especially in areas of basic economic infrastructure important for the present and future national interest.

Step Number Two. Technological measures must be taken as cooperation among nations, to raise the general net level of the physical-productive powers of labor globally, through flows of technology from technology-exporting localities to technology-deficit localities. Typical of such needed measures, is the proposal for a Eurasian Land-Bridge, proposed by my associates over the course of the recent ten years. Eurasian cooperation, probably pivoted on Europe's cooperation with a group of nations brought together by aid of strategic-economic cooperation among Russia, China, and India, is typical of the economic-growth programs which are required to match a return to something equivalent to the 1945-1964 Bretton Woods system.

Step Number Three. The time has been reached, at which we must surpass those relatively primitive levels of cooperation, in which peaceful cooperation has been treated merely as a form of mere negation of conflict. We must move toward the kind of policy which then-U.S. Secretary of State John Quincy Adams proposed for the future of the Americas: *a community of principle among perfectly sovereign nation-states*. Sovereignty requires that states be self-governed according to those national cultures by means of which the

members of the nation are able to communicate ideas pertaining to what England's poet Shelley described as "profound and impassioned conceptions respecting man and nature." However, among such nations, our common purpose must be the same: the general welfare of each nation, and the general welfare which is positively promoted through cooperation among nations. Those nations which are prepared to adopt such a policy toward humanity should do so now. We should not seek to impose our will to that effect on other nations, but we should set the example we would hope they would come to admire.

The General Welfare of Humanity

All nations are, in fact, in one boat, a boat which is now sinking. We shall not save the boat without an energetic promotion of fundamental scientific and derived technological progress in the physical productive powers of labor. That means that that science and technology must be shared with those who have need of it. Without the adopted motive to benefit one's neighbor, for no different reason than the sake of the general welfare of humanity, we should probably not find the will needed to overcome the threats to the general welfare which now proliferate among the populations of the world.

Situate China in respect to that third consideration. See China through my eyes as an economist. See the crucial matters of the world's reciprocal relations with the nation of China, in the terms of my work as a long-range economic forecaster.

Progress is the fruit of the combination of a scientifically progressive culture, with the evolving cultural tradition through which a people chooses and implements its policies of practice. The fruit of such combined development of the culture, is to be estimated as the benefits which a present generation's work contributes to two, three, and four generations ahead. Since approximately a quarter-century is required, in technologically modern culture, to educate a newborn child to young-adult maturity as a working professional, we must judge the long-term effects of the present generation's decisions over a period of not less than fifty years ahead. What do we intend the condition of China and neighboring Asia to be fifty years from now? That should be the agenda for policy deliberation of the Americas and Europe with China today.

To motivate progress, we must provide the living individual with a sense of the meaning of his or her individual life and its outcome two or more generations ahead. An animal lives for today; a human being lives for that for which he or she should be remembered, and thanked, generations yet to come. If peoples of nations would think of themselves, their nation, and other nations, in that way, relations among peoples will have positive motives, the sense that we need one another to succeed, rather than merely negative desires to escape the penalties of conflict.