**Helga Zepp-LaRouche:** Given the fact that I'm a German citizen, I just want to add, why it is in the fundamental self-interest of Germany to cooperate, not only with Russia, but with all the countries of the Eurasian Land-Bridge. The situation of the German economy and financial system, is not less dramatic than that described by Mr. Glazyev for Russia, or by Mr. LaRouche for the whole world. The *de facto* bankruptcy of the capital of Berlin, and the bankruptcy of Berliner Bankgesellschaft and the five banks involved, is actually the condition of every German bank. Right now, the inflation rate in Germany is 3.6%, according to the Federal Constitutional Court. For the euro transition, inflation can only be 3%.

So, we may see, very soon, constitutional actions to prevent the euro from coming into being. Especially because there is, behind the scenes, panic in government and financial circles, about the fact that there are about 200 billion d-marks in cash, in addition to the several hundred billion d-marks in the central banks, which expectedly leads to total chaos in the transformation. So, Germany will be hit, in the second, third, and fourth quarter of this year, with a combination of an increasing tendency of hyperinflation, depression, and chaos in the euro transition.

So, in this chaos, the euro may not come into being, which for the survival of Germany and Western Europe would be the best thing to occur. To maintain sovereign national currencies, in the context of economic cooperation of the Eurasian Land-Bridge—this serves the best interests not only of Germany, but of every European country.

Germany is dependent, economically, on expanding export markets to ever-richer customers. Globalization has destroyed the traditional export markets of Germany: Africa is dying; Latin America is about to go the way of Africa; and many areas of the world are plunging into catastrophe. In the German interest, the collaboration of Germany with Eurasia, with the development of the Eurasian Land-Bridge, is an economic self-interest. On a deeper level, it is in the security interest of Germany, because we in Germany remember very well, the connection between depression and war. If the existing plans in 1931 to overcome the depression, which existed in Germany around Dr. Walter Lautenbach and the Friedrich List Society, would have been implemented, the coming to power of the National Socialists could have been prevented.

Today, the danger of war exists in many places, in the Middle East, in Africa, in many other regions of the world, and I think it requires, today, the vision of all the countries of Eurasia, together, to determine a peaceful order, or future, and not the degeneration into war.

So, I'm preparing every positive force in Germany, and other European countries, to become part of such an alliance for a new financial system, and Eurasian Land-Bridge, as the cornerstone for a global reconstruction program, in the months to come.

Thank you.

Dennis Small

# The Missing Ingredient: LaRouche's Principles of Physical Economy

*Dennis Small is Ibero-America Editor and a member of the editorial board of* Executive Intelligence Review. *He keynoted the April 16 third panel, "Ending the Casino Economy Before It's Too Late," of the Schiller Institute's international conference, "Without the Development of All Nations, There Can Be No Lasting Peace for the Planet."*

*Subheads have been added.*

Schiller Institute

*Dennis Small*

Good morning and good afternoon. In the historic press conference that Lyndon LaRouche delivered on June 28, 2001, the day before he and Helga Zepp-LaRouche presented testimony before the Russian Duma's Economic Committee—in the statement that you have just heard—what he said at the very outset was the following, and I want to read you this sentence again. He said:

> No new monetary system can function without a corresponding economic policy driver and long-term goals.

I'm repeating that because that is actually the starting point of the discussion of this panel. The very next day, in his Duma remarks, in addition to discussing the breakdown collapse of the trans-Atlantic financial system, Mr. LaRouche came back to the same central issue of what is it that gives value to an economic system and to its currency? I quote:

> This reorganization of the world monetary and financial systems must be based upon the use of large-scale, long-term cooperation in infrastructural development within, and among nations, and heavy emphasis upon adopted targets of scientific and technological progress. The pivot for world economic growth, should be a new system of transcontinental cooperation among the sovereign nation-states of continental Eurasia … but all the world will benefit through participation as partners in that effort."

Now, it was about 21 years later, on Sept. 12, 2022, that the same Dr. Sergei Glazyev, the well-known and significant Russian economist who was the chairman of that Duma Economics Committee at the time, sent a message to Helga Zepp-LaRouche on the centenary of the birth of Lyndon LaRouche…. One of the important things he said there was the following:

> In practically all the major countries in the world that today are developing successfully–above all India, and China–there are partisans of LaRouche. They have used his thoughts and ideas, for creating their economic miracles. It is the principles of Physical Economy championed by LaRouche, that today underlie the Chinese economic miracle, and are there in the foundations of India's economic development policy. The supporters of LaRouche in those countries exert a fruitful, very positive, and constructive influence on economic policy-shaping in these leading nations of the new world economic paradigm.

## Derivatives and the Collapse

So, I come before you today to make three points in the case that I would like to present to you today. Number one, we are in the middle of a full-blown collapse of the trans-Atlantic financial system; unstoppable, irreversible, thunderous, and dangerous. Two, there is already an avalanche of calls and action for de-dollarization; that is to say, of entire nations splitting out from the speculative global system run by the City of London and Wall Street, using the dollar for their purposes. That drive for de-dollarization is well underway, and I would say at this point, it's a done deal. This is not going to stop.

The third point I wish to make, and this is really the key question that I want to bring to your attention, is that we must address the question of what is the basis of that new system that is coming into being? What is the actual source of value? How do we determine the parities, the exchange rates among currencies? How do you make sure that they don't lose value? How do we make sure that they do not become speculative instruments in themselves? The key ingredient here, the missing ingredient in much of the discussion even among those who are absolutely intent on moving forward, is LaRouche's principles of physical economy. That's the central subject that I want to bring to your attention.

Now, first on the question of the collapse: We are dealing not with a debt problem internationally, we are dealing with a derivatives problem. We are dealing with a global financial bubble of approximately $2 quadrillion—and again for those of you who don't really know how big a quadrillion is, it's 2 followed by 15 zeroes. And that's built on top of the debt bubble of the stocks, the bonds, the indebtedness of nations, of individuals, and so on. It is that derivatives bubble which blew out back in 2008, and the so-called "solution," which was provided by the geniuses in Wall Street and in the City of London, was, "Let's just feed the bubble and make it bigger. That should work out just fine." And here we are, $30 trillion later of quantitative easing and other funny-money generation, and the world bubble is blowing out.

Now, what they did first, was to really apply the gas pedal to try to provide more acceleration to this financial bubble. Then, a year ago or so, when they saw that this was going to really get completely out of control, they decided, "Well, let's try to apply the brakes." They raised interest rates up to 4.5% to 5% today, and that in turn has led to what we have seen most immediately in this period, which is the bankruptcy of some medium-sized and major banks internationally.

We had the crisis of Silicon Valley Bank, which went belly-up. That was bailed out, basically by the FDIC stepping in, way above the legal limit to which they're allowed to defend deposits—which is $250,000—and they said, "No, we'll bail everybody out. It's OK, don't worry." This was a bank that had engaged in extensive

FIGURE 1

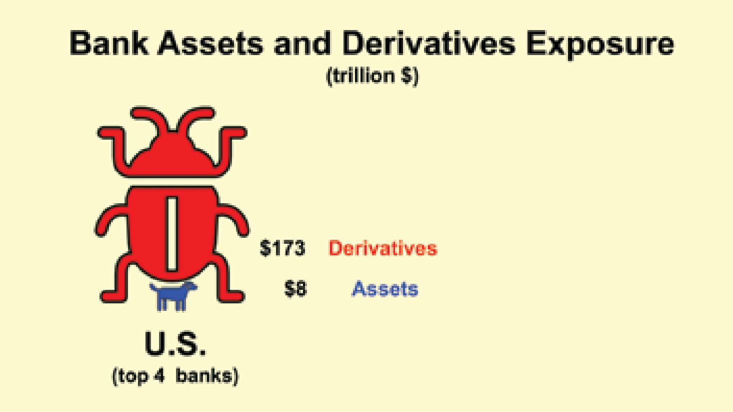
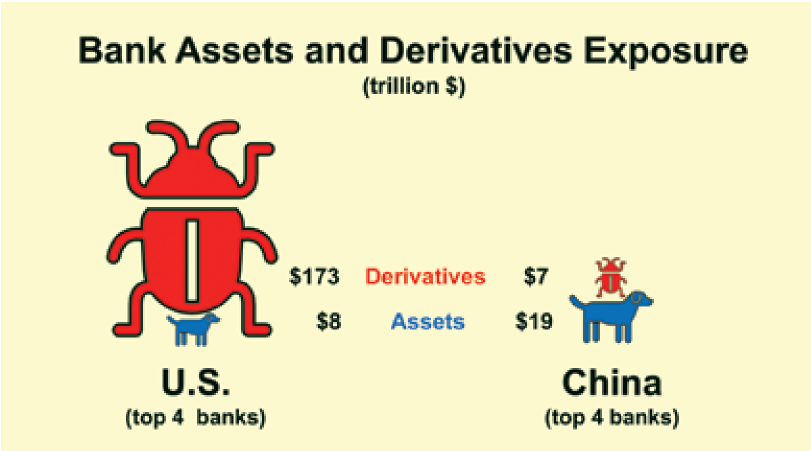



FIGURE 2

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speculation, especially in the tech bubble.

Then, we had the case of Credit Suisse, one of the largest Swiss banks, with a huge amount of derivatives on their books. They went completely bankrupt. That was bailed out by the Swiss National Bank providing something like $270 billion in bail-out funds. That, in turn, back-stopped by the Federal Reserve, which provided swap lines to all of the European central banks just as we had done back in 2008 to help bail out the cancer. Then, it was taken over on the orders and instructions from the Swiss and other central banks, by UBS of Switzerland—creating a giant, huge, completely bankrupt bank.

Now this issue of Credit Suisse actually brings into focus what the real problem is. And as I said, we're talking about derivatives. If you consider the four largest banks in the United States in terms of derivatives holdings, what you will find is that they have $173 trillion in derivatives, as against $8 trillion in assets (**Figure 1**).

Now if we were to think of the assets of the bank as a dog, and the derivatives as a flea or a tick on that dog, then you're talking about a 22-to-1 ratio. If you have a 22 pound or a 20 pound dog, you're talking about a 400 pound tick. Poor dog, right? Now, just for comparison purposes, take a look at the situation with China. China's situation is very different. Their top four banks have $19 trillion in assets, but only $7 trillion in derivatives (**Figure 2**). Still too much, but not a situation that's out of control by any means.

## Glass-Steagall De-Dollarization

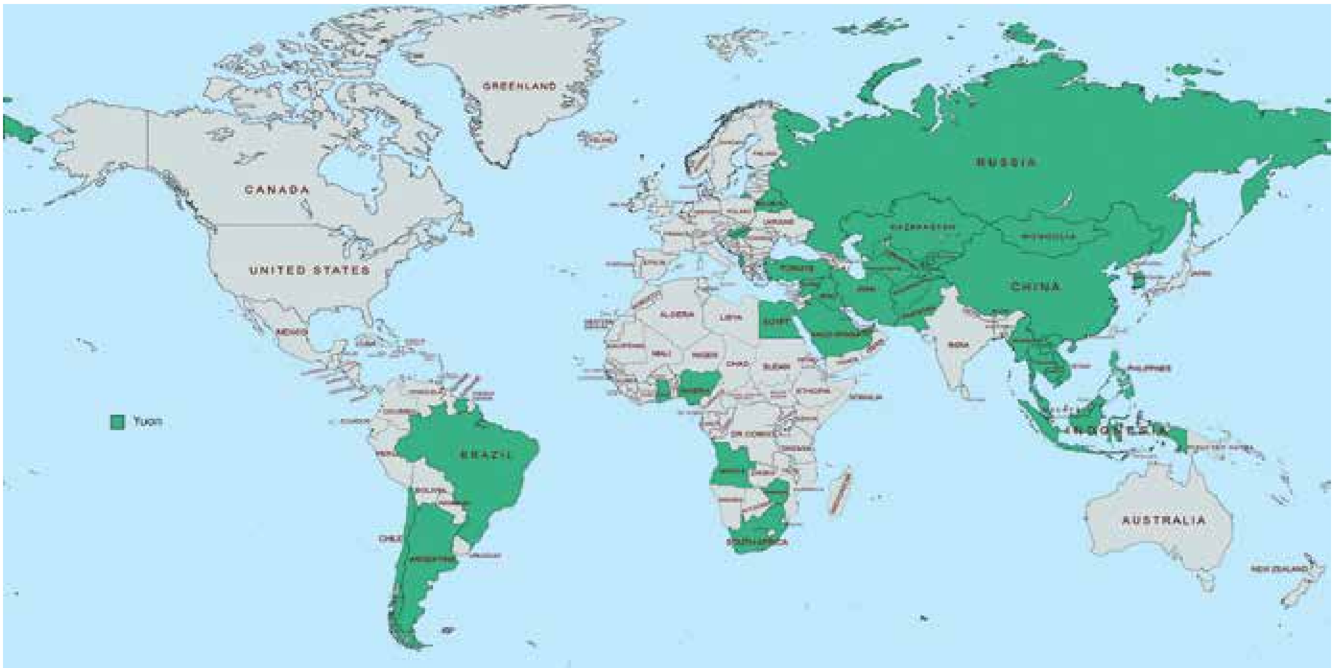
This fact is known to everyone around the world with eyes open enough to see, and who cares enough to see. Country after country is recognizing it, and what's going on is a process of de-dollarization—people saying, "We see that the Titanic is sinking. We don't want to go down with it."

I think this is happening for three reasons. First of all, as I said, they see that the Titanic is going under, and they don't want to stay on board. Secondly, they see that the sanctions applied to Russia did not destroy Russia. As a top Brazilian official stated recently, "Who's afraid of the big bad wolf?" on this question of dealing with China and so on. Russia didn't go under; in fact, even the SWIFT nuclear option, of removing Russia from the SWIFT [banking communications] system failed to have an effect, as had been forecast it would.

But the other thing that's going on, is that there is some leadership. There's leadership among nations: You have the ideas being presented by Xi Jinping, by Putin, by leaders in Brazil, Saudi Arabia, Türkiye, Indonesia, and others, that are clearly pointing in the direction of increasing the role of local currencies, non-dollar currencies. First through swaps—bank-to-bank swaps to have credit lines; second, through trade denominated, for example, in yuan. And then to actually set up full-scale clearinghouse operations which will permit not only trade, but investment in the respective economies.

Now, if you take a look at the map which is now on

FIGURE 3
**The Chinese Yuan Is Becoming a Global Currency**

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the screen (**Figure 3**), you will see that a quick approximation of the number of countries involved in this, using the yuan in one way or another, is over 30, and it's well over half the population of the planet in point of fact. So, this is the kind of process that is going on, and it is spreading very rapidly. Now, many people in the United States have gotten on their high horse and said, "This is terrible, this is an attack on us. This is getting rid of the dollar; you're attacking us. We've got to stop this. China's got to be stopped; Russia's got to be stopped; Brazil's got to be stopped; they've all got to be stopped."

Well, this is nonsense, because the fact of the matter is that the United States should also de-dollarize. If what we mean by this dollar is the Wall Street dollar, the City of London dollar: not the dollar that was once the greenback or the national currency of the United States to permit national economic development, but a cancerous, speculative animal that has taken over our dollar system. And it has put us under the control of the City of London and Wall Street. We, too, must de-Wall Street-dollarize ourselves.

That process in the United States has a very specific name and history. It's called Franklin Delano Roosevelt's Glass-Steagall principle. Because the Glass-Steagall principle is nothing but de-Wall Street-dollarization; it's a full separation from the speculative dollar under the control of the City of London and Wall Street, not the people of the United States. That on the one hand; and on the other hand, commercial productive banking, in which the dollar can once again return to be the currency of the United States.

Now, the question here—and this is the issue that I want to pay attention to—is, how do we provide a value for this? How do we actually make sure that whatever new currency is developed—whether it be the yuan, or more probably I would suggest, a common BRICS currency coming out of the upcoming August summit meeting of the BRICS in South Africa, in large part because I think the Indians would be more comfortable with that than the Chinese yuan—but whatever it is, the important point is not the currency, but the policy that gives value to that.

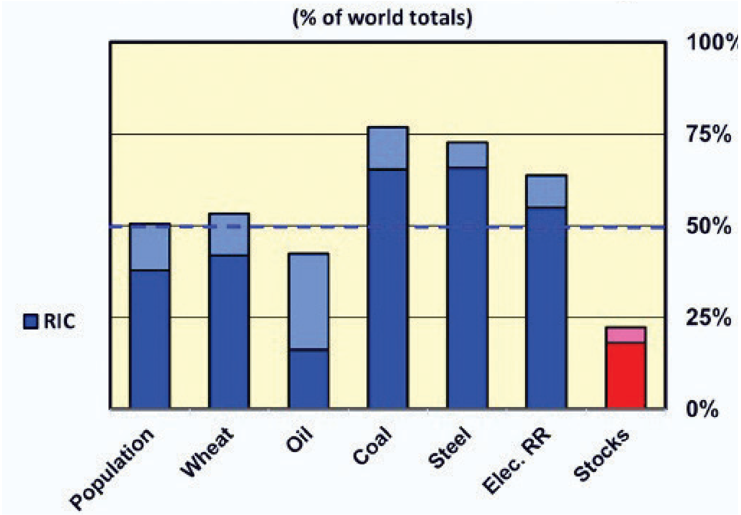
## 'Trade Without Currency'

Lyndon LaRouche addressed this issue, in depth, in a study which I want to really recommend to you as being absolutely fundamental. It is called "Trade without Currency." In that document, LaRouche addresses this issue in depth.

Let me preface this just by recounting a personal exchange I once had with LaRouche which was a real eyeopener to me. I went to speak with him about how does one actually establish parities of a useful productive basis between the United States and other currencies? For example, the Mexican peso; I was studying that in a little bit of depth, and I put together a picture of market baskets of consumer and productive goods and infrastructure goods and so on. I raised the issue with LaRouche, and I started to discuss it. I had not gotten very far into my question, when he said:

> Forget it! It doesn't matter! Just set a fixed parity that seems reasonable, because that fixed parity, that fixed exchange rate will permit the adoption of policies of investment and high-technology and scientific advance, which is the only thing that will give value to any currency. And then, and only then, will you have the basis to actually talk about what an actual parity should be. Don't do it with math; do it with physical economy.

FIGURE 4
**BRICS-Plus: Physical Economy**

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Now, let's listen to what LaRouche himself had to say in this extraordinary document of his. I think this is important because if you look to the situation around China, what gives the yuan strength is the strength of the Chinese economy. Lifting 850 million people out of poverty, mass high-speed rail lines, scientific advance, and so on. If you turn to the BRICS, as you can see in the graph on your screen right now (**Figure 4**), there is a real physical economic basis in the BRICS+ countries—the five BRICS and another nine or so for which we did calculations—physical economic parameters which are very encouraging.

With 51% of the world's population, those countries produce 53% of the wheat, 77% of the coal, 73% of steel. They have a very small portion of stock market valuation, which is a good thing. But this is not value; this is the platform from which value can take off. It is an encouraging platform, but the rocket that has to take off is the increase of the productivity of the physical economy; the increase of the productive powers of labor.

LaRouche asks this question at the outset of his document:

> What constitutes the quality of durable value upon which medium- to long-term, hard-commodity capital formation could be rationally premised?... When it is, thus, most forcefully demonstrated, that durable forms of economic values, can not be adduced from a quantity of money, where does a measurable valuation of economic activity lie?

And he then raises the actual issue of potential relative population density, which is his major breakthrough and discovery in economics, as he himself recounts. He says the following:

> The essential calculation to be attempted, in any rational scheme of economic studies, is what is best identified as the potential relative population-density of the population of the national economy as a whole. The measurement to be derived from this standard, is a measurement of the rate of increase, or decrease of that potential.

Very well, what then causes increase of potential relative population density? LaRouche provides the following outline of an answer:

> In the science of physical economy, as first defined by the relevant 1671-1716 work of Gottfried Leibniz, the specific distinction of the human species from all others, is the fact that only mankind is able to increase its species' potential relative population-density—its power—by an act of will. In mankind's increas-

> ing power within, and over the universe, the relevant act of will is expressed as the discovery of what is proven to be a universal physical principle.

How then to set the actual value of currencies and exchange under that concept of physical economy—LaRouche's principles? He says:

> A basket of commodities, as I have outlined that case here, is thus to be understood as a shared commitment to do good. The issue of economy is, therefore, not the exact price to be placed on any commodity, but the good will expressed in the way a reasonable estimate of a fair price is adopted. On that basis, a reasonable price for a unit basket of commodities, will be the right price in practice.

## Human Creativity

Now, what is LaRouche getting at here? That man is uniquely endowed as a species with creativity to discover universal physical principles of the universe in its process of creation; and that by so discovering those principles, man contributes to that process of development of the universe. That creativity, that free will to engage in creativity, is what also is the basis of morality. That … is the moral decision to act such that the potential relative population density of our entire species is improved, everywhere in all countries, to mutual benefit. It is therefore that standpoint—that standpoint of philosophy, that standpoint of physical economy—which is the only basis on which to discuss how we will be able to actually build a new economic and development architecture.

As with the case of [Bernhard] Riemann's *Habilitation* thesis—where he stated that to understand the issue before him, it was necessary to go from the domain of mathematics to the domain of physics—so too, if we are going to understand what a new architecture means, we will have to go from the domain of merely financial and monetary considerations, to the domain of physical economy, to Lyndon LaRouche's science of physical economy.

Thank you very much.