Defeat Bank of England's Attack on the Dollar, with No Trade War

The U.S. dollar is overvalued. President Donald Trump clearly knows this and is upset by it, in particular relative to the Chinese yuan currency. But the President is playing directly into the hands of the European central bankers' attempted "regime change," when he demands the Federal Reserve copy their negative interest rates. They stifle productive investment and encourage the City of London and Wall Street's unregulated speculation "off-balance sheet." He is not acknowledging why the dollar is too strong.

There is the immense $5.5 trillion daily volume of unchecked and unregulated currency speculation, exploded from $2 trillion a day in 2004, and virtually all divorced from actual trade. There is the central banks' incompetent negative-rate policy, which makes even record-low U.S. Treasury interest rates look high by comparison.

The dollar's overvaluation is underlined by the fact that labor productivity in China, according to standard measures, has been growing more than twice as fast as in the United States for nearly 30 years. This should have continuously strengthened the value of the yuan against the dollar. This is true for simple labor productivity (average growth rate 6.5%/year in China vs. 2.7%/year in the U.S., since 1992),and for total factor productivity, which attempts to measure the impact on growth of technological progress in industry and in building new economic infrastructure (average growth rate 3.16%/year vs. 1.6%/year).

With China's recent decades of very large and continuous investments in new, high-technology infrastructure—and the innovations and breakthroughs necessary to build it—this stronger productivity growth is not surprising.

We can illustrate the same overvaluation through another basic comparison. The average income per capita of an individual in the United States is about two and one-half times that of a person in China. But if the American were to somehow receive that American average income in Chinese yuan—at the recent exchange rate between the two currencies—and spend it while living in China, his or her "local purchasing power" for a market basket of life's necessities would be, not two-and-a-half times, but just a little under twice that of the average Chinese earner next door (according to the CEIC Data firm in Hong Kong, the Organization of Economic Cooperation and Development, and others whose studies of purchasing power in the two countries agree).

These comparisons suggest that uncontrolled speculation has carried the relative value of the dollar too high.

But the United States and China could make a nation-to-nation agreement at any time to establish a fixed exchange rate for their currencies with an up-valuation of the Chinese yuan, and removing all their new tariffs and tariff increases of the past 18 months. They could keep the new currency exchange rate stable by establishing exchange controls to stop the speculative inflows and outflows of currency.

And both nations could establish a strict Glass-Steagall separation of commercial banking and lending, from speculative trading and derivatives activities of investment firms. These speculations put tremendous pressure, not only on exchange rates, but on interest rates. And since 2006, this has been almost continuously downward pressure, as the speculators have profited by riding along the central banks' policy track.

China has legislated Glass-Steagall separation since 1994, but the regulations of it have been loosened and need to be re-established in full. The United States Congress has pending legislation to restore the Glass-Steagall Act, which requires the President's encouragement to move. As presidential candidate Donald Trump proposed in 2016, "Pop the 'gigantic bubble on Wall Street'"; and "Enact a 21st-century version of Glass-Steagall."

Such a U.S.-China agreement on fixing exchange rates and separation of speculative banking from commercial banking, if made with the mutual intention of reversing the currently worsening trade war, would increase both the ability and the incentive for China to invest some of its foreign exchange holdings alongside American investors in a U.S. national credit institution for new economic infrastructure in the United States. These are two of the basic principles laid out by Lyndon LaRouche in 2014 as "The Four New Laws To Save the U.S.A. Now! Not an Option: An Immediate Necessity." They are re-establishing Glass-Steagall and creating Hamiltonian national banking institutions to invest in infrastructure and manufacturing.

A U.S.-China agreement would effectively invite other major economic and technological powers to join in a new international fixed-exchange-rate system to replace speculative flows with investments in new technologies and capital goods, particularly into developing countries.

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