New International Credit System or Bust: Trump Should Initiate It

The trade and production impacts of the novel coronavirus epidemic in China hit a global economy which is already in a manufacturing, industry and trade recession, and is threatened at any moment with a blowout of unpayable corporate debt and derivatives contracts bringing down banking systems. In the fourth quarter, 40 central banks cut interest rates 71 times and increased their bond-buying schemes, in a desperate campaign to support stock and bond markets. The Federal Reserve cannot escape "quantitative easing" and daily huge liquidity injections into the interbank lending markets. This morning, China's central bank had to do the same, $170 billion worth. Any serious shock now can bring down the whole financial system very quickly.

Only the leaders of a few great powers today believe firmly in the roots of real, physical-economic growth—scientific and technological progress and resulting rising human productivity. The leaders of the United States, Russia, China and India show this by rejecting all Malthusian "green new deals," by aggressively pursuing space exploration, advances in nuclear power, by Russian President Vladimir Putin's call for an international fast-track program for breakthroughs in fusion power.

These four must act fast; President Donald Trump should call them to a summit to launch a new credit and money system, and do it urgently.

China's necessary two-week (at least) shutdown of business and work in 24 provinces could be compared to a two-week or longer "strike" shutting down 70-80% of its economy. That is a shock. It means that now all four of those leading powers face declining manufacturing production and employment. This emphatically includes India; the U.S. manufacturing recovery stopped in mid-2019. These countries also have serious corporate debt bubbles; only China's banks are partially protected by Glass-Steagall bank separation.

The severe problem of the coronavirus epidemic only brings front and center the absolute urgency of ending the international "floating exchange rate" monetary system's 45-year imperium of financial speculation, and austerity against industries and households. That system was spawned by City of London finance when its banks succeeded in 1971-73 in killing off Franklin Roosevelt's pro-industrial, pro-progress Bretton Woods system. Now it spawns "green new deals," and Davos billionaires and British royals plan outright shutdowns of whole industries and farm sectors, threatening outright depopulation by disease and malnourishment.

Facing the necessity of U.S. of a four-power summit to reverse this crisis, most favorably initiated by the United States, it is interesting that a Jan. 30 RAND Corporation commentary on an August 2018 RAND Europe study published reversed RAND's recent position on China's Belt and Road Initiative (BRI) of great projects of rail, port and power infrastructure across Eurasia. Noting the developing countries need tens of trillions of dollars in new infrastructure investments, commentary by Hui Lu, who also headed the 2018 study, said: "[t]he proposed BRI investment not only increases trade in the BRI region but also in areas outside of the initiative, such as the EU. Overall, the total trade volumes increase by $329 billion for the BRI region and $133 billion for the EU. Improving infrastructure in the region would appear to then present a win-win scenario in terms of the impact on trade among many countries.

"China's true motivations for the BRI may still be unclear, but the West could also consider the initiative's potential to deliver sustained economic, social and environmental benefits for all, and find ways to support infrastructure improvements in the countries involved." (See "Economic Gain Is Possible for All Involved If Infrastructure Is Improved in Countries Encompassed by the China BRI," by Hui Lu, a commentary in the RAND Blog.)

This was the purpose of FDR's original Bretton Woods system idea. The way to make it happen now, begins with an urgent meeting of leaders to head off a financial breakdown worse than 2008—by creating a new Bretton Woods.