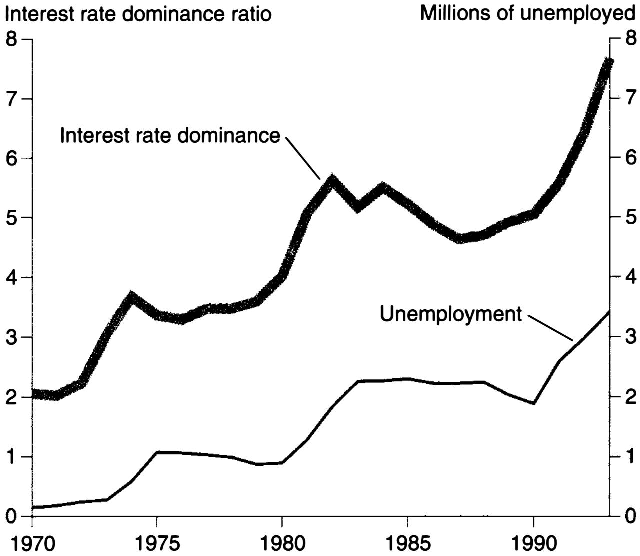
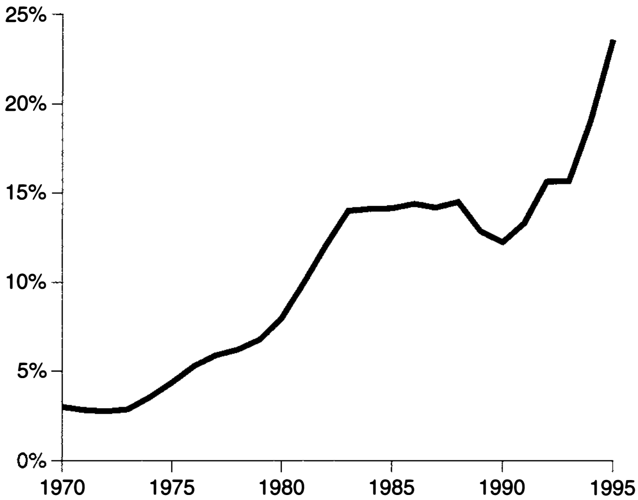
FIGURE 6
Interest rate dominance ratio* compared to unemployment



*Interest rate dominance ratio = $\frac{\text{interest payments}}{\text{capital investment in productive sector}}$

Sources: German Federal Statistical Office; EIR.

FIGURE 7
Federal German interest payments, as a percentage of federal tax revenues

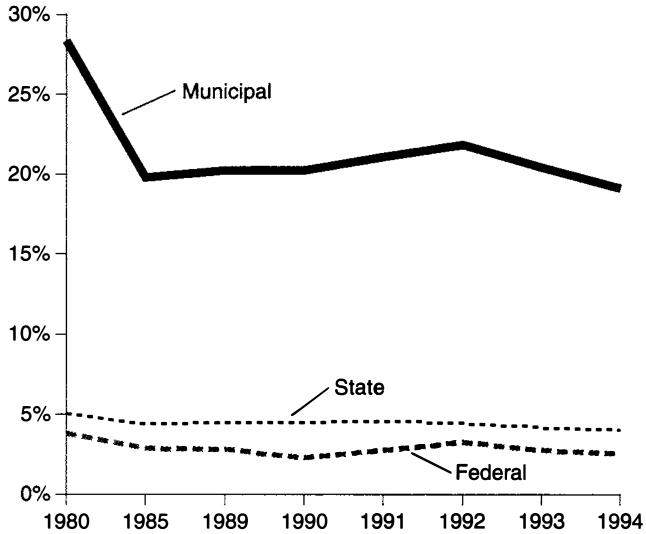


Sources: German Ministry of Finance; EIR.

A bigger and bigger share of the German tax revenues, therefore, goes for interest rate payments; it's now something like 24% of the whole income (**Figure 7**).

At the same time, due to the Maastricht budget-cutting mania, public infrastructure investments are decreasing very fast, especially in the case of the municipalities (**Figure 8**).

FIGURE 8
German public construction investment as a percentage of total public investment



Sources: German Federal Statistical Office; EIR.

So, in conclusion, we can say that, without the reorganization of the global financial system and the establishment of a Eurasian infrastructure program of great construction programs on a Eurasian scale, there is no hope for the German economy.

Thank you.

Abalkin: Thank you. Vyacheslav Senchagov has the floor.

Vyacheslav Senchagov

Mr. Senchagov is the director of the Banking and Financial Policy Center at the Institute of Economics, Russian Academy of Sciences.

Esteemed colleagues! I think that discussion of Mr. LaRouche's report is of great theoretical, as well as practical interest. I would like to dwell upon the very complex, and still not fully clarified theoretical question of the relationship and interaction of the physical economy and finance. For a long time, it seemed to us that the West had actually achieved an optimal relationship between the physical and the financial aspects of the economy. Certainly, they saw the active role of finance and credit in economic development. But the data provided by Mr. LaRouche indicate that all is not well there.

I would name another indicator, which, it seems to me, in a generalized form gives some idea about the violation of this optimal relationship. This is the off-balance-sheet liabilities in the banking system, in the U.S.A. and in other countries. At the end of the 1980s, off-balance-sheet liabilities were already double what the banks had on their balance sheets. Off-balance-sheet liabilities had reached the level of $6 trillion, while the balance sheets showed $3 trillion. Specialists estimate that today, the off-balance-sheet liabilities are even more out of correspondence; they exceed what is on the balance sheets by an even higher ratio. I cannot expand on this

Here's the point: to enter the world system or not, and if we enter, what do we bring to it? I believe that Russia has something to bring in.
—Vyacheslav Senchagov

idea now, but I will just say that off-balance-sheet liabilities are liabilities, which don't count as banking activity, proper.

The fact that off-balance-sheet liabilities exceed what is on the balance sheets, is evidence of a balance crisis, and of the fact that a significant part of financial flows is out of control. It also shows, that many such flows are not backed up by any physical commodities.

If we examine our economy, the economy of the U.S.S.R. and Russia, we have to take note that here, too, there was no optimal relationship between the physical economy and finances. Management solely by financial instruments, in 1921-1928, even with a strong gold-backed currency, was not adequate to solve the problem of concentrating banking and private resources on strategic tasks. This model failed, not because of the evil intentions of Stalin, but because the model itself was not well refined.

At that point, there was a shift to a completely different model, based on the priority of physical, material balances, physical indicators, and so forth. In its pure form, we can say that this line also failed to be very promising, historically. But in the best period of its development, i.e., from 1965 to 1970, when reforms provided a better correspondence between the physical and financial indicators, it seems to me that this system reached its apogee precisely in that period. All subsequent attempts to strengthen the financial and credit levers, *violated* the overall balance.

If we take the situation today: A one-sided orientation towards financial and credit instruments, first of all, has led to a big collapse, to an effective suppression of the physical, material side—of the entire physical volume in the economy. Secondly, it has led to a collapse of employment, and an irrational utilization of labor resources. Third, it has created an unnecessary polarization of income.

The 'art' of economic and financial policy

Therefore, there is a basis for choosing to return to physical economic parameters. But this would be incorrect. Historically, it would be a big mistake. In this regard, I think it is possible very carefully to determine the correct proportions; this is the art of economic and financial policy.

I see one of the roots of a solution for this problem, as being a new approach to setting currency rates; and, on the basis of this, the recreation of the banking system; and, the creation of a good budget mechanism. I shall just mention the basic elements: First, the construction of a total, consolidated balance of the basic assets of all firms. The principle used should be the computation of current value, and certain other principles. This will permit the definition of a strong material base for the currency. Secondly, there should be an assessment of those components of wealth and the strength of the currency, which are not taken into account today. They are not part of financial turnover. This refers to economic minerals, which are properly valued at $27 trillion; of course, this should be recalculated at a more realistic currency exchange rate, but there is no question, that this figure is fairly commensurate with the levels of imports we receive. That is, it will, of course, far exceed our imports.

The weakness of our currency, is chiefly due to the fact that we have not created a strong agriculture sector. Thus, we have to purchase a lot. We have a strong currency—in oil, gas, gold, other resources. On the basis of correct economic estimates and the development of appropriate mechanisms, it should be possible to create the real financial and credit possibilities for an upswing in all sectors of manufacturing.

On this point, not everything is totally clear to me, and I would not give a unilateral endorsement of the presentation by Professor Korolyov, whom I respect very highly, to the effect that Russia should create, in some sense, its own system, a closed financial and monetary system. [Murmuring in the hall.] Perhaps I am exaggerating what he said, somewhat, but—maybe just a little bit.

But here's the point: to enter the world system or not, and if we enter, what do we bring to it? I believe that Russia *has* something to bring in. Russia has a lot, but it is true that we do not have statesmen experienced in the financial realm, with the proper training for the present day. But Russia does have resources. It does not have managerial experience. But these are matters for negotiations, from the standpoint of recognizing each other's strength. The U.S.A., Russia, China—I think that is approximately the scheme.

In conclusion, I would like to say that the trouble with the situation we are in, is that—although this may have been appropriate, at a certain stage of things—our education in economics overrated the physical, material approach, so that we did not create an adequate cadre of specialists in credit and finance. Today, the young generation scores high marks for individual financial business operations, but is very weak, when it comes to the financial operations of the state. If we had a general education program in this respect, which would avoid any extreme approaches, I think it would be possible to talk about creating a new banking system, as well as the Russian ruble's entry into the international community of currencies. Thank you for your attention.

Abalkin: Thank you. I give the floor to Mr. Tennenbaum. Mr. Pavlov will be next.

Jonathan Tennenbaum

Dr. Jonathan Tennenbaum of the Schiller Institute is the author of numerous elaborations of large-scale infrastructural development programs, including the "European Productive Triangle" proposal in 1990 and the Eurasian land-bridge concept. He is the director of the Fusion Energy Forum in Germany. Portions in brackets were in the written text of his speech, but were not delivered orally.

Thank you very much.

Over the last 12 months, a number of institutions and organizations in Russia have put forward programs for "anti-crisis measures," to save Russia from the catastrophe which has resulted from the so-called reform policies, promoted and enforced by the International Monetary Fund (IMF). I do not want to talk here about the specific features of the various "anti-crisis" programs; I think, however, that there is a clear tendency emerging, in the direction of a conception of national-economic recovery of Russia, which would include the following ideas:

1. The process of collapse of agriculture and industrial production, physical infrastructure, public health and education, and the loss of in-depth scientific and technological potentials, must be reversed, *immediately,* through dirigistic actions by the state. This *must* be done, because if it is not done, then the continuation of the collapse process will mean the irreversible loss of Russia's sovereignty, national security, and even its physical basis of existence.

2. Russia's history and culture have unique features, which obviously must be taken into account in designing any effective policy for overcoming the present crisis. On the other hand, the kinds of measures which the Russian government take today, in order to restore production and rebuild the economy, do not require the invention of something fundamentally new. The history of industrial nation-states, such as France, Germany, and the United States, provides many relevant points of reference. These include, for example, the "dirigistic" methods employed by President Franklin Roosevelt, to end the "Great Depression" of the 1930s in the United States, as well as the policies which guided the successful postwar reconstruction of France (under de Gaulle), Germany, and Japan.

3. In this context it is crucial to emphasize, that the rise of those nations to industrial power, and their recovery after wars and depressions, were always based on policies of "national economy," directly opposed to the monetarism and globalist "free market" and "free trade" dogmas preached by the IMF today. Those policies, associated historically with the names of Leibniz, Alexander Hamilton, Friedrich List, and Henry Carey, as well as Dmitri Mendeleyev and Sergei Witte in Russia, emphasize the crucial role of the state, in

i) regulating the essential monetary and credit functions of the economy, including ensuring sufficient flows of credit for expansion of the productive base of the economy (the latter being most effectively accomplished by "Hamiltonian" methods of credit generation by national banks);

ii) providing measures of protection, price regulation (parity prices) and tax structure, which ensure an all-sided development of the nation's productive powers;

iii) maintaining and developing basic physical infrastructure (transport, energy, water, communications), by means including state financing of large-scale infrastructure projects;

iv) providing for universal education of the young, and for essential sanitation and health care services;

v) promoting rapid scientific and technological progress.

These principles of national economy provide the basis for defining the kinds of measures required, short- and medium-term measures, needed to reverse the collapse of Russia's physical economy in the present, concrete situation. This is exactly what is done in several of the "anti-crisis" programs I have seen, which rightly emphasize such measures as: (i) Reestablishing control over the financial system and the main direction of investment flows [(including stopping capital flight and crushing the uncontrolled criminal element)]. (ii) Protectionist measures and price regulation, to stimulate domestic production and consumption of the most essential agricultural and industrial goods. (iii) Large-scale government investments in modernization of infrastructure, industry and agriculture. [(iv) Increasing the purchasing-power of the poorer majority of the population, while taxing excessive, speculative incomes and certain categories of exports,] and so on.

Two possible outcomes

Now, I think there is no doubt, that the kinds of national-economic measures, which I have just sketched, are absolutely *necessary* for a successful economic recovery of the country. However (and this is the main point I wish to make today), national economic methods by themselves are not *sufficient* in the present context. In fact, as far as I have seen,