
Sergei Glazyev

We Need a New World Financial Architecture

Dr. Sergei Glazyev, an economist and a member of Russia's State Duma (parliament), addressed the second panel of the Berlin seminar on June 28. Glazyev has authored many books on economics, including Genocide: Russia and the New World Order, which was published by EIR in 2000.

First of all, I'd like to thank Mr. LaRouche for this initiative, which is very important, and to my mind has a crucial sense.

A few years ago, when he wrote a lot of articles about the collapse of the present financial system, very few people were thinking about that. Now this collapse is taking place. Each year, the crisis is going deeper and deeper, and now it's time to think about the new architecture of the world financial system. And this initiative, which was launched by Mr. LaRouche, is just in time. And nowadays, when unfortunately, heads of state, the heads of the central banks, and the heads of the largest financial corporations are trying to close their eyes to the growing problems, and imitate a good policy, we have a chance to sit here to discuss the future—which inevitably is coming in the nearest years—the future with a new, I am sure, financial architecture, which will emerge in any case, after the collapse of the present one.

I don't think that this collapse could be prevented. What we should think about, first of all, is how to—not to avoid the crisis, but how to minimize the costs of transition; and what could be the new, optimal, and sustainable system, financial system, which will give mankind an opportunity to continue economic development.

We really need a new architecture of the world financial system, because those which exist couldn't be improved. I don't think that the present dollar-based speculative financial system could be improved. It is going to collapse anyway, and the question is only, what will be the shortcomings of this collapse, and how we can minimize the costs.

I agree, that this financial crisis and collapse of the financial system is a disaster for the whole of mankind. And of course, all nations are trying to maintain the stability of the present financial system, and to avoid new risks. But the problem is that the risks are embodied in this system, and they are growing higher and higher.

What could we do, to save this system, which is based on injustice, on fraud, on unequal and imbalanced exchange in the world, and this imbalance is going higher and higher? In fact, the dollar-based financial system now, is what we call a "financial pyramid." It's just being maintained, due to the growth of financial speculations; and financial speculations determine the demand for the dollar; and the supply of dollars couldn't be really limited, because of the internal nature of the American financial system. They have to print more and more dollars to service the growing debts. And this is the endless process which finally leads to the collapse, as we see in the history of mankind: a lot of cases like that—of course, of much less scale—of the collapse of the financial pyramids.

Nowadays, this financial pyramid is supported by various



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Left to right: Maj. Gen. Assir Karim (ret.) of India, Dr. Sergei Glazyev of Russia, Lyndon LaRouche, and moderator Michael Liebig. Dr. Glazyev told the meeting that he doesn't think a global financial collapse can be prevented. What we should think about, is "what could be the new, optimal, and sustainable system, financial system, which will give mankind an opportunity to continue economic development."

financial speculations, including the speculations with raw materials, which we see in the growing oil prices, which are purely speculative. And the United States is trying to maintain the demand for dollars also with the help of wars, and trying to pressure various nations to keep their currency reserves in dollars. But this couldn't go on endlessly. Nowadays, the American Federal Reserve doesn't control dollar circulation: About 60% of the dollars which were created by the Federal Reserve System are circulated abroad, and they are out of the American jurisdiction entirely. At the same time, if you will look at the present structure of the dollar-based financial system, we shall see that the amount of dollars in circulation, together with Treasury bonds, is 25 times higher than the amount of the American gold and currency reserves. It means that there is nothing under the dollar, except the demand which is generated by growing speculative activity.

I don't think that somebody will push the American financial system into deep restructuring, which will balance this. How can we balance the reserves and the monetary base of the dollar, if the scale of difference is 25 times? It is completely impossible to decrease the amount of dollars by a factor of 25, except through massive devaluation.

We Need To Declare Bankruptcy

So, in order to improve the dollar-based system, trying to introduce some kind of New Bretton Woods principles, including fixed exchange rates, we need to, in fact, declare the bankruptcy of the Federal Reserve and bankruptcy of the dollar financial system. This is the only way to get rid of this surplus of 25 times, in comparison with the monetary base. But, if somebody does that, of course, it will create a huge panic in the world market, and everybody will run away from the dollar, which will inevitably lead to the devaluation of the dollar, not by 15 or 30%, but I think maybe by a factor of 10 or 30.

So, I don't think that anybody on Capitol Hill will have enough courage to take responsibility for restructuring on such a scale.

And it means, to my mind, that collapse will take place in spontaneous ways, and we should be ready for that. But, what could we do in this situation? At least I think we can try to elaborate some principles of the new world financial architecture. And, to my mind, at least we can discuss the following principles: First of all, no one country could privatize the creation of the world reserve currency. The weak point of the present financial system, is precisely that the United States privatized the function of the world reserve currency. In 1971, they pushed Western countries to take dollars instead of gold, and, in fact, privatized the right to creation of the world currency, and used this right for their own purposes, to finance the budget deficit and to finance the balance of payments deficits. So, America used its right to create the world currency, as a worldwide tax: Because those countries which used this currency as a reserve cur-

rency, in fact, paid a tax in the form of zero-interest-rate loans to the United States, in growing and growing quantities.

So, I think the first principle, from this lesson, should be that no one country could privatize the right to create the world currency.

The second principle is, that all countries which agree to participate in this new world financial architecture, should agree to keep a certain financial discipline in money creation and the structure of currency reserves. Maybe they should keep, also, some rules of determining interest rates and budget deficits. But at least, they should agree concerning the principles of money creation, the structure of currency reserves, and come to agreement concerning the basket of currencies which participate in this new financial architecture.

The third, I think quite elegant principle, is that in order to maintain stability in international exchange, you need some kind of international reserve: like, maybe, the IMF could play the role of this international reserve fund, which will work to stabilize currencies, which will come out of an agreement concerning the fixed rates, or some other proportions of world exchange. But we need to maintain stability, some kind of international reserve fund, which will work under multinational supervision.

To finance this international reserve fund, we can propose both financial contributions, in national currencies of

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