
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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countries which participate in this scheme, or—maybe, and—an additional source: the worldwide taxation of financial speculation, which was already mentioned today.

Who Will Create a New Financial System?

What countries could participate in this new financial architecture? I don't think that we can come to an agreement on the worldwide scale—under the United Nations, or some other international organizations. Perhaps only those countries which are ready to make steps in this direction, can take on the burden of the creation of the new financial architecture, not waiting for others. Because the time is limited, and the main players, namely the United States and Japan, in fact are not ready to limit their opportunities to create the world currency.

Both Japan and the United States create their currencies, not on the basis of their reserves, but on the basis of growing national debt. And these currencies, in fact, are pure national debts. And in order to go to the new financial architecture, the financial authorities of the United States and Japan should declare bankruptcy (I'm not sure about Europe), but this, to my mind, is quite evident, and, of course, these countries are not ready to do that.

What countries are ready, to my mind? Those countries who still keep control over their currency creation, money creation, and have enough reserves to protect their currencies from devaluation. Russia, for instance, has now currency reserves twice [the size] of the monetary base. So, each ruble has reserves—each ruble in circulation, which was created by the Central Bank, has reserves equal to two rubles. Of course, it is a crazy policy—I shouldn't comment on that now. But, at least it will give enough room for maneuver, for Russia to participate in *any kind* of new financial architecture based on fixed exchange, or other rules of currency exchange.

China and India are countries which are also ready to participate in the new financial architecture, because they are keeping control over their monetary system. And as you know, they were not affected by the financial crisis of 1997-98, exactly because they kept control over their monetary systems, and didn't liberalize them. For these reasons, having enough currency reserves and keeping control over money creation, these countries could easily participate in the new financial architecture.

The Arab countries could do the same, because of the large currency reserves which they have. I mean the Arab countries trading with oil.

So, at least we have a couple of countries, which are dominant, together, in the Eurasian continent. If the European Union joined this, it means that the whole Eurasian continent would be the platform to establish the new financial architecture.

I don't think the United States could participate in this new system, because their currency simply has no reserves. They have no reserves, and they have to limit their currency

creation several-fold—and they're not ready to do that. And if you wait for the United States, I'm afraid that we shall go into collapse altogether.

So, my suggestion is, perhaps, we can elaborate some recommendations, at least for those countries which have opportunities, to start to think and negotiate about the new financial architecture.

Of course, it is not an easy question. And, for instance, I can tell you, that when I proposed to the Russian Central Bank and to the Russian President, to launch an initiative to switch to a new financial architecture, I didn't get any real answer. Because such steps, of course, will have immediate results. If at least two or three superpowers, in the Eurasian continent, will try to discuss together the new financial architecture, it could be a trigger for the financial crisis. So, it is a very delicate issue, but at least, I think we should think about that, and there is no other way than to push those who will be ready to make a first step—not wait for when the whole system will go into collapse.

Money Is a Question Of Physical Economy

Here are Lyndon LaRouche's closing remarks to the seminar.

The most important thing is, that we're dealing with a world in which there's a conception of money, which is the popular conception of money *by* governments, and by leading institutions, which, from my knowledge, is insane, by the standard of the effect of the concept, the way it's applied. That the value of money should not be determined based on some current accounting value. That accounting should be banned as a method for determining the value of money.

The value of money should be determined by a *scientific* principle, *not* an accounting principle. And the scientific principle is: What is a physically defensible determination of the will of governments and the ability of governments to perform in creating credit, over the long term, for the development of their economies and their productivities? And therefore, we among nations, should recognize this process, *use* this process, and set *values* in terms of credit, and exchange, on the basis of those determinations, which must be *physical, scientific determinations*. Because, the crucial thing is, what is the physical life of the investment? How is it going to be maintained? And how long is it, and what's its quality? Those are the bases on which you should issue credit: on knowledge of the determination and competence of the government *to create value*, to create wealth, and to have sufficient wealth, *to repay the debt you are creating, in a timely fashion*.

This is a *physical* question, *not* an accounting question.