

tion, fed by the limitless emission of the global currency—which role is currently played by the dollar—has been cranked up to full power, and no one can stop it. It may still be maintained in a state of seeming equilibrium. But, as we know, financial pyramids cannot exist forever.

Given, according to economic forecasts, that the destabilization of the global financial system will deepen in the near future, we should prepare ourselves even now to deflect the consequences and destabilizing effects of the global financial crisis on the Russian economy.

The Russian economy today is very exposed to the world financial system, and very vulnerable. Suffice it to mention that in the functioning of the Russian economy, the Russian national currency is used less than other world currencies. If we look at it, Russian exports and imports are expressed in dollars. Add to this our currency reserves, denominated in dollars. Add to this the dollar-denominated obligations of Russian banks. Add to this dollar-denominated payments, and the dollar-denominated savings of our citizens. It turns out that our financial system is essentially a surrogate continuation of the world financial system, where the dominant role is played by the U.S. dollar.

In the event of a destabilization of this system, the Russian economy will undoubtedly be subjected to very serious shocks. It is not difficult to estimate their scale. It will be, I think, comparable to the consequences of the financial crushing of 1998, if we don't succeed in protecting our financial system from the destabilizing influences of the global financial crisis.

### **What the Hearing Will Address**

This is basically what we want to address in our parliamentary hearings: to discuss possible ways of increasing the stability of our financial system; guaranteeing economic security in a situation of deepening financial crisis. To think about strengthening the ruble, not in terms of strengthening the ruble's exchange rate, but in terms of expanding its sphere of utilization as a full-fledged Russian currency, which would be defended against the possible destabilizing effects of the global financial system. To think about strengthening the stability of our banking system in this situation. And, finally, to think about increasing the stability of the Russian economy as a whole. We are talking both about a diversification of our currency reserves and about the accumulation of real reserves, material reserves, which would permit the Russian economy to operate normally in a situation of destabilization of the global financial system. It is necessary to think about measures, which would allow us to maintain economic cooperation with nations abroad, in a situation, when the system of international payments may have been destroyed to a significant extent. And here, obviously, it is necessary to speak about the possibilities of moving to the use of national currencies for payments, first of all, among the CIS [Commonwealth of Independent States] members, with the European Union, with

China, with India, i.e., with our main trading partners, on whom our critical imports depend. . . .

So, with your permission, I want to open our parliamentary hearings and to give the floor to our guest, the well-known philosopher, historian, and economist Mr. Lyndon LaRouche.

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Lyndon H. LaRouche, Jr.

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## **Policy Changes Needed To Overcome the Collapse**

*This is the testimony of U.S. Democratic Presidential pre-candidate Lyndon H. LaRouche, Jr., to the Russian State Duma's Economics Committee, in Moscow on June 29, 2001, as delivered.*

Presently, the world as a whole is dominated by the fact, that we are in the end-phase of the IMF system, at least as it has existed in the form it developed following U.S. President Nixon's introduction of a so-called "floating exchange-rate" monetary order in mid-August 1971. Contrary to some hysterical propaganda coming out of the now deeply troubled U.S. Bush Administration, nothing can save the present world financial and monetary system in its present form.

A continued refusal to accept certain necessary, sweeping reforms in those systems, would bring about not only an economic catastrophe worse than the worst period of the 1930s economic depression. The present crisis, unless it is stopped by drastically needed reforms, will also be a demographic collapse more or less comparable to what is called by historians "the New Dark Age," which dominated Europe following the Fourteenth-Century bankruptcy of the so-called Lombard banking system.

Therefore, to speak of any economic policy which does not include an early and sweeping reform of the IMF system, is worse than a waste of time.

We can overcome this collapse, but only if we are able to bring about a certain degree of international cooperation around four general intentions. The four essential classes of sweeping changes in the existing monetary and financial system, are as follows.

### **Changes That Must Be Made**

1. The total accumulation of indebtedness in the world today vastly exceeds the amount which could ever be repaid under existing terms and conditions of repayment. If either the creditors or debtors wish to survive, much of this indebtedness



*Lyndon LaRouche addresses a press conference on "The Economy of Russia Under Conditions of Destabilization of the World Financial System," at the Moscow Press Center on June 28.*

must be simply cancelled, as without merit. This includes what are in fact purely gambling debts, called financial derivatives.

What remains of morally legitimate debts, should be reorganized, in both amounts and terms, in the degree such reorganization is an essential precondition for sustainable physical-economic growth in per-capita output. In this reorganization, we must follow the advice of former U.S. Treasury Secretary Alexander Hamilton, in insisting that the honorably contracted part of the nation's official debt, must be defended, as a precondition for its power to create new credit in the future. The principal amount of all other debt is negotiable under the conditions of a world crisis as disastrous as the present one.

2. As a practical political measure, the revision of the international monetary and financial systems must incorporate the best features of the 1945-1958 cooperation between the U.S.A., Western Europe, and Japan. This must be a vigorously protectionist form of monetary and financial system, solidly based on true partnership among perfectly sovereign nation-states.

3. This reorganization of the world monetary and financial systems, must be based upon the use of large-scale, long-term cooperation in infrastructural development within, and among nations, and heavy emphasis upon adopted targets of scientific and technological progress. The pivot for world economic growth, shall be a new system of transcontinental cooperation among the sovereign nation-states of continental Eurasia.

4. Those regions, within and among nations, which can generate "fountains" of scientific and technological output to regions which are deficient in their available supply of such technology, must be envisaged as suppliers of not money-

loans, but long-term purchasing credit, at nominal borrowing-costs, for that purpose. Continental Eurasia should be the center of such global economic recovery and growth, but all the world will benefit through participation as partners in such an effort.

Since the general cycle of development based upon the combination of infrastructure and more advanced technologies is approximately a quarter-century, the system of credit and payments should be based on cycles of about a generation, and at simple interest-rates on borrowed purchase-credit at between 1% and 2% simple interest.

Under the conditions created by a general bankruptcy now pervading the world's principal banking systems, the required credit must be generated by political actions of sovereign governments, using newly created national-banking institutions as the pivotal agencies through which relevant agreements are coordinated.

Inevitably, there will be many who scream in protest against the return to the protectionist practices associated with the names of economists such as Leibniz, Alexander Hamilton, Friedrich List, and Henry C. Carey. No amount of such screaming will change the basic fact, that the system of "free trade" and "globalization," has proven itself a catastrophic failure, relative to the protectionist policies of the 1945-1958 interval. The U.S.A., the putatively leading economy of the world, is presently bankrupt, and under any continuation of the Bush Administration's present policies, it is hopelessly bankrupt. In the meantime, the movement toward cooperation within continental Eurasia, already represents the cornerstone for the kind of cooperation needed to rescue at least much of the world from the presently onrushing global financial, monetary, and trade crisis.

## The Role of the U.S.A.

It would appear to many, that, since the present U.S. Bush Administration is hysterically opposed to any reforms along the lines I have outlined, the reforms I have indicated would be unrealistic ones. Behind that Administration's mask of mixed self-delusion and willful deception, the reality is quite different than many around the world have been misled to believe.

If you look at the widely circulated broadcast and other reports I have given since late November of this past year, the current Bush Administration has followed the ill-fated course of policy-making I had warned it would, during the period prior to Jan. 20 of this current year. Already, as a result of Bush Administration blunders against which I had warned, the first phase of a political revolt against the new Administration has occurred, in the form of a Democratic Party regaining of control of the U.S. Senate.

Now, as the second quarter of 2001 has been a worse catastrophe than the first quarter, and the third is on the way, the currently leading internal political issues of the U.S., energy, inflation, and health care, will be taken over by a growing panic over the obvious onrush of a general economic depression.

With the presently accelerating collapse of the U.S. as the world's chief importer of last resort for Asia and other parts of the world as a whole, the world is near to that sense of global crisis, at which the need for a general, more or less planet-wide monetary and financial reform will be a leading theme of political discussion in many parts of the world, including the U.S.A. itself.

I shall not predict that the U.S.A. will be prepared to propose cooperation with the kinds of economic and related cooperation with which President Putin's efforts are associated. I merely say that under the likely changes in mood now developing within the United States, the dumping of fanatics such as Zbigniew Brzezinski, in favor of U.S. cooperation with a Eurasian development perspective, ought to become U.S. policy. It should be seen as a policy well worth working to make a reality.

A growing number of influential U.S. circles, within the U.S. Democratic Party, and other circles, are now persuaded that my warnings and proposals are relevant. I am presently enjoying some significant political support for these efforts inside the U.S. and elsewhere. However, since, in politics, nothing good is ever guaranteed by fate, we must work all the harder for success.

Thank you.

**Sergei Glazyev:** Perhaps you will sit here [at the dais], to answer questions. If there are no questions now, I think they may arise later, and we can come back for discussion, especially because we have planned a series of presentations, which will provide additional food for thought and conclusions.

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Jonathan Tennenbaum

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## The Financial Crisis Grips the United States

*Jonathan Tennenbaum is a scientific adviser to the Schiller Institute. The text has been translated from Russian, and sub-heads have been added.*

I would like in my presentation to focus on some fundamental aspects of the global financial crisis, especially the nightmarish situation that has developed in the American economy and financial system.

Ordinary people most likely would say, "We in Russia would like to have the problems that the Americans have. The Americans are so rich, that things could never be as bad as they are here." Indeed, there's a lot of money in the United States—*too much*. That in itself is a main symptom of the illness. These monetary aggregates are not connected with the creation of real wealth, but were generated through gigantic monetary emissions by the Federal Reserve System, combined with the so-called credit multiplier of the banking system.

In this way, during the 1990s the greatest financial bubble in human history was created inside the financial systems of the United States and other countries. That bubble is now collapsing. And, in contrast to the illusions of some monetarists, this collapse process is absolutely irreversible in terms of its destructive effect on the world economy as a whole.

I would like quickly to show you some graphs, which I think represent certain essential aspects of the problem in the world, and America in particular. First of all, you can see here what LaRouche calls his "Triple Curve" (**Figure 1**), which gives a qualitative representation of the crisis. On the one hand, you have a steep growth of the nominal value of financial assets—stocks, bonds, and so forth—shown by the upper curve. At the same time, there is growth, or expansion of the money supply, both the direct printing of money, and the expansion of the effective money supply through the banking system. That is the second, middle curve. The money supply is expanding, but not as rapidly as the nominal value of the financial aggregates. This was the situation approximately two years ago.

The third curve, the descending one, shows the real growth of the physical economy. You can see this worldwide—that the world economy is experiencing negative growth. I am talking not about the monetary side of the world economy, but the real, physical economy; the real, material standard of living; the condition of infrastructure, and so forth.