earnings was essentially the same as the growth of GDP as a whole? For the century, profitability averaged 5 or 6%, which was not far off the growth rates for the economy.

It is often said that Russian economists are too far away from American reality to have an accurate impression of the U.S. economy, and that therefore our approach to evaluating what is happening there must be somehow "marginal." But, I would simply like to quote Lawrence Lindsey, President Bush's economic adviser, who recently said in a speech to the American Society of Editors and Journalists, "Last year, the private sector spent $700 billion more than its post-tax earnings." Here he paused, and repeated, "That is 7% of GDP. There has been nothing like this in the history of the U.S. economy. It is around 3% of the budget surplus, and the other 4% came from foreign investment. The United States has never been so dependent on foreign investment." "We are in uncharted territory," Lindsey said, "and we don't know what will come of this. We cannot borrow 4% of GDP from the rest of the world for the indefinite future. Imagine going to your banker and saying, 'Thanks a lot for the $280 billion you loaned us in 1999 and $435 billion in 2000. It looks as if we'll need another $520 billion this year, $650 billion in 2002, and probably $800 billion in 2003.' This is called 'evergreen' financing, and it cannot exist. Sooner or later, it comes to an end."

Indeed, this problem can hit all the existing financial markets very hard. But in spite of this, the same Lawrence Lindsey continues to support the strong dollar policy, on which the influx of capital to the United States has been based, thus drawing the rope more tightly around the debt trap, and, in a sense, impeding any long-range resolution of this powerful contradiction on the market. Thank you very much.

Dmitri Mityayev

Russia Must, and Can, Act To Protect Itself

Dmitri Mityayev is president of the Center for Systemic Forecasting. His speech was translated from Russian.

We have had plenty of macroeconomics today, so I shall try not to deal with that side of things. I believe we are living in a system of false notions. There is no world financial market, in the sense we use that term. There is a system of interconnected cartels, which derive superprofits. There is the stock market cartel, there are the commodity cartels, including OPEC, there is the gold market cartel, there is the currency cartel, and there is a cartel that is absolutely not understood or studied, but which is powerful nonetheless—the cartel for shaping expectations on the derivatives market. These things are all interconnected.

In this sense, globalization is the global power of these few dozen players, among whom the central banks and ministries of finance are sometimes not the biggest or the most powerful. And history shows that, as a rule, unless the three main central banks—the Federal Reserve System, Europe, and Japan—unite, the combined power of the so-called financial speculators can breach any defense.

There is no economic competition among America, Europe, and Japan. There is, rather, an ongoing economic war, in which all means are utilized—from hoof and mouth disease, to Macedonia, and so forth. There is no monetarism for themselves, in the standard sense; it is only for export to backward countries, in order to forge techniques there for pumping out financial and other resources, while for themselves, fairly tough market programming is employed. This is the Keynesian model, if not Marxist.

Therefore, what I now see as the main danger for Russia, since we're discussing Russian threats and Russian responses, in the short term is the "paving" of Europe [by foreign capital], which is taking place before our very eyes. We can say a lot about the fact that the games of financial speculators are one thing, and the real economy another; in reality, everything is very directly and closely interlinked.

Since the beginning of the year, the euro has been devalued by 13% and continues to be pushed down, with the direct consequence being increased capital flight out of Europe. In April, it was 21 billion euro, which is 3% of GDP, or four times more than one year before. The capital flight, naturally, is to America. For the umpteenth time, the Europeans are paying for the stock boom that occurred, and in which the Europeans have already lost more than half of what they invested. It is a war for survival. Actually, all the players understand quite well the real rules of this game.

Three Choices

In this sense, the United States has essentially three choices. Either turn Europe into a poverty zone, i.e., the same mechanism that was tested on Japan at a certain point, and then on several Asian and Latin American countries, and on Russia. Or, the ordinary American citizen will have to pay, an option which the current U.S. leadership is afraid of. Because the two-thirds of demand, and the domestic economy in general, is something sacred. This is why the strong dollar policy is being maintained, so that the ordinary American will not (God forbid!) get hit, and flee the stock market. . . .

And the third choice, the least probable, which they don't really consider as an option, is for the initiators and main players themselves to pay, i.e., the global financial—actually, not even so much financial, as informational-financial—groups. Statistics have come out on these derivatives. Strange

Dmitri Mityayev at the June 28 press conference.

as it might seem, the biggest holders of derivatives are not only banks, but also real sector companies such as General Electric, which lost $1.2 billion on this market during the first quarter, though that's not a huge sum. Therefore, since nearly everybody over there is taking part in this, that third option, the most exotic, is the least probable for them. All the other ways will be tried first, of course.

I should like to say, that the goals are not particularly secret. The United States is quite open about it. For those who understood what it meant, the United States announced the strong dollar policy through the State Department and Treasury Department, and made clear that the fate of the euro was directly tied to Europe's position on NMD [National Missile Defense]. There were such statements, not long ago.

Thus, the U.S. position on Russia is clear enough, and not particularly hidden. I am looking not at the whole range, but at the financial and economic side. There has been a policy decision to revive offshore operations, as the main mechanism for pumping financial resources into the U.S. stock markets and other U.S. financial markets.

I have already said, that what happens in Europe is the chief, medium-term danger for Russia, because that is our main market. And the near- and medium-term threat is a very serious threat of a several hundred-fold devaluation of our strategic assets. Because, in the event of a serious world crisis (there are the relevant examples from history), fictitious capital—as it is called, although it sees itself as quite real—runs into material assets. Therefore, there needs to be an adequate response to this threat, otherwise Russia will find itself without strategic assets in a relatively short historical period of time. And there will be no room left for counteraction. I have already identified that this is a serious threat, the threat of financial isolation in the event of Washington's choosing this "cold" option. This would mean a possible long-term depression in the European Union, even if the United States "recovered" by pushing Europe down. As happened, I repeat, with Japan, the United States could buy some time for a new round of financial and other profit-taking.

Another threat is the lack of any understanding of this world dynamic, and the real threats, within our state's strategy. Academician Lvov spoke here about the actions of the Russian government being directed essentially in the opposite direction. This applies to the rent payments, which the President discussed in his Message [to the Federal Assembly]. Instead [of what the President called for], as of Jan. 1, 2002, all the remaining small rent payments are being abolished, and there is a transition to a uniform tax rate for all.[1]

Europe's Independence

The point, here, is the importance of pushing ahead the talks with the European Union on Mr. [Romano] Prodi's initiative, or his two initiatives, on doubling the supply of energy to Europe from Russia. Indeed, looking ahead 10-15 years, Europe has no alternative, because its other sources of natural gas will be exhausted by that time: Norway and Great Britain. There was some discussion of shifting to the euro in foreign trade, but this initiative was politely received as some kind of exotic proposal. In fact, Russia would be no less interested in this than Europe, but only within a certain negotiating framework. A whole set of deals should be concluded with Europe, that is, and linked with resolving the state debt problem and with fixing long-term prices on Russian commodities. In other words, a shift to the euro should be coordinated with the establishment of fixed prices, so that we can do some normal planning.

Because, if things keep going the way they are, those raw materials super-revenues, which Russia has been receiving, will cease to be, in the near future. The whole spectrum of problems which we had in 1997, can reemerge rapidly. The markets of the European Union, as Russia's main markets, should become markets for Russian high technologies. I should repeat here something that seems paradoxical, but I really do think that in the long term, Europe has no chance to have its own identity, or security, without Russia, without "backward" Russian defense technologies, strange as that may seem, because otherwise Europe will depend on the United States forever. The option of using NATO as a sort of umbrella for governance, again, will lead to Europe's economic and other development being entirely dependent on what NATO's interests will be in Kosovo, Macedonia, and so forth.

On what should be some more obvious matters: The structure of Russia's gold and currency reserves should be brought into correspondence with the structure of our state debt and foreign trade. At present, we have mostly dollar assets. Actu-

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1. In his annual Message to the Federal Assembly (*EIR,* April 13, 2001), President Vladimir Putin echoed the language of Academician Lvov, when he said that Russia was "still living in a rent-based economy, not a productive one," and called for the earnings of the raw materials sector, known as "natural rent," to be directed in such a way that they benefit the nation far more than they do now.

ally, even the European Central Bank has 45% of its reserves in gold, despite all the talk about the declining role of gold. It did seem that the gold cartel, which existed for many years, was listing—but the practice [of holding gold] has not confirmed its demise. Russia, and all the leading central banks in the world, are not reducing that role of real assets in their gold and currency reserves. In Russia, we also have the possibility to increase reserves in the form of gold, other precious metals, stones, and so forth.

The Stabilization Fund

The last point I'll touch upon, is the discussions around the stabilization fund, and whether it will come into being. And, we have Academician Lvov's model, about what should be on the balance sheet of some state agency, a Ministry of Natural Resources or something. The point here, is that those real surpluses that exist, need to be routed through the tax system and other legal agencies, so that the state receives its rent from these super-revenues. In principle, if these incomes are invested in dollar or other foreign-currency instruments, it is the same form of capital export, on which Mr. Illarionov and other of our leading gurus of the liberal path and the latest recovery of Russia, are currently insisting.

Therefore, the resources of the stabilization fund, or if they are in some other form, should be invested in real assets, above all in infrastructure. The land holdings and mineral deposits, currently exploited by Gazprom, the oil companies, and others (not only in Russia, by the way, but also in the CIS countries), were mentioned, and some estimates of their worth have been made. This will solve the problem of what to do next about the country's foreign debt, because, if these assets were to be appropriately capitalized, after assessment, the entire Paris Club debt could be paid down, or exchanged for a small portion of joint investments in those assets. In principle, this initiative is also on the table.

Finally, I should like to say again that I consider the subject of our parliamentary hearings to be very timely. I don't know, however—maybe there are some such people in the hall, but I don't see, at least among those who spoke, anybody who makes real decisions for the state, that is, above all, from the Central Bank or the Ministry of Finance. Of course, without something changing in those quarters, I don't think that the Parliament can accomplish anything on its own. Nonetheless, the earlier and more completely the dangers are diagnosed, the greater chance there is, that there will be time to adopt adequate measures. Thank you.

Helga Zepp-LaRouche

The Eurasian Land-Bridge As a War-Avoidance Strategy

Helga Zepp-LaRouche is the founder of the international Schiller Institutes, and the president of the Schiller Institute in Germany.

Thank you, Mr. Chairman. I am very glad, that the preceding speaker mentioned the relationship between economic conflicts and problems, and military conflicts. I am going to talk about this, about the fact that economic policy has certain consequences, when economic depression leads to war.

Since the 1995 Halifax summit, but above all, since the Russian GKO crisis and the near-collapse of the world's biggest hedge fund, LTCM [Long Term Capital Management], the governments of the G-7 have had recourse to only one measure: pumping unbelievable amounts of liquidity [into the markets]. The speculative bubble in the "New Economy," which was the direct result of this liquidity pumping, has burst, and inflation, which had earlier represented asset-price inflation, is now spreading as commodity-price inflation, with a tendency towards hyperinflation. At the same time, due to internal economic breakdown, the United States is losing its role as the importer of last resort, which has hit Asian exports particularly hard: The tendency towards depression is increasing worldwide: banking crises, mass layoffs, depression. What is threatened, is a breakdown of the global financial system, of a sort not witnessed since the Fourteenth Century.

Was this development foreseeable? The answer is, loud and clear: Yes!

When, in November 1989, after the fall of the Berlin Wall, signs of the dissolution of the Warsaw Pact and the Soviet Union emerged, Lyndon LaRouche warned that it would lead to a catastrophe, if one attempted then to replace the collapsing economic system of the East, with the equally bankrupt free-market system of the West. The paradigm shift, over the preceding 25 years, which, through a long series of neo-liberal steps, had undermined the foundations of the economy, in favor of speculation, would inevitably lead to the collapse of the system.

LaRouche proposed, instead, to go back to the principles of physical economy, in the tradition of Leibniz, List, Mendeleyev, and Witte. He presented the grand vision of a program for the "Paris-Berlin-Vienna Productive Triangle," as the locomotive for infrastructural and economic integration of Eastern and Western Europe, and for the development of the East. This concept called for the integration of the no-longer-divided industrial centers lying within the Triangle—the size