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## Commentaries

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# International clamor for a change in policy

*Across the spectrum, there is acknowledgment that “savage capitalism” has failed miserably, and some are calling for a New Bretton Woods system.*

**Walter Meade** a senior fellow at the New York Council of Foreign Relations, wrote in the Aug. 23 *Los Angeles Times*, that “even with the stock markets tottering around the world, the President and the Congress seem determined to spend the next six months arguing about dress stains. Too bad. The United States and the world are facing what could grow into the worst threat to world peace in 60 years.

“Forget suicide car bombers and Afghan fanatics. It’s the financial markets . . . that pose the biggest immediate threat to world peace.”

The Aug. 24 issue of the *Wall Street Journal* dropped the pretense that each “crisis” could be isolated and singly managed. The *Journal* wrote: “The financial firestorm that has been scorching economies around the globe is intensifying into one of the world’s worst—and most baffling—currency crises since the system of fixed exchange rates crumbled a quarter of a century ago. What makes the crisis so unnerving is that there is no clear solution in sight—no financial firebreak that governments or international financial institutions can construct to slow the spread. Hopes that the crisis, ignited by the July 1997 devaluation of the Thai baht, would soon burn itself out have been dashed, by this month’s devaluation and default in Russia and the side effects that flared Friday [Aug. 21], including record lows for the Mexican peso and the Canadian dollar, and the Venezuelan central bank’s decision to give the bolivar more room to fall.”

**Larry Elliott** wrote in the London *Guardian*, on Aug. 28, under the headline “Rescuing Russia.”

“What is called for now is a new Bretton Woods, to rethink from first principles the way in which the global economy is managed” to provide a global alternative to the past 25 years of “unfettered capitalism, uncontrolled capital and unbridled laissez-faire policies.” These policies have “done what Stalin could never do,” i.e., bringing the West “to the brink of economic turmoil. . . . It is now recognized that the financial and political crisis that is engulfing Russia is not just a problem

for Boris Yeltsin, but a threat to the stability of the entire global economy.”

“The new Bretton Woods” would have to discuss “restoring sanity to a system that increasingly appears to be spiralling out of control. In practical terms, this would mean the global elite swallowing large dollops of humble pie. . . . The crisis in Russia is the logical conclusion to the misguided policies of the past 20 years.” He criticizes the “parties of the center-left,” in various governments, which “bought heavily into the new orthodoxy” of financial liberalism. What is needed now, are policies that “tax foreign exchange speculators. . . . The only real defense against the perils of globalization is the power of the state. And they need to understand it now, before it is too late.”

“Taking On the Speculators,” is the title of a commentary in the Aug. 25 *Journal of Commerce* by Hong Kong’s representative to the United States, **Kenneth Pang**. Hong Kong, he said, has “the freest market in the world,” where “Adam Smith is as revered as Mother Teresa is in India,” but, he warned, “Not all speculation is equal.” Those now attacking Hong Kong are “the kind of financial gamblers whose cold-bloodedness could freeze mercury at 10 paces.” Authorities have confirmed “the substantial speculative selling of Hong Kong dollars by a few investment houses, acting on behalf of the hedge funds. . . . While they had every right to speculate, they had no right to do so at the public’s expense. . . . Hong Kong is not against the shorting of the Hang Sang Index futures by hedge funds, or by anybody else. But there comes a point when national governments must defend the public good and their economies. . . . Our actions had nothing to do with Adam Smith and everything to do with responsible economic stewardship. Governments cannot sit idly by while speculators take delight in economic ruin.”

Brazil’s *O Estado de São Paulo* ran an editorial on Aug. 25 on “Hong Kong’s Warning,” citing an article by Hong Kong Monetary Authority head Joseph Yam, who explained why Hong Kong defended itself from the speculators: “People are important, and the government has the responsibility for the well-being of the governed. Markets can be efficient, but they can also produce disasters, as has happened in various so-called emerging economies. It is unacceptable not to intervene to protect people.

“Less than a quarter-century ago, few people would have called these statements into question. It would be unlikely that a government official would have judged it necessary, as Joseph Yam . . . did, to write an article reaffirming these points. That such an explanation was considered necessary is a significant historical fact. It shows how the cult of the Market has spread, and how it has altered the concept of social life. . . . But action in the national context may be insufficient.

“Thus, his warning directed to the governments of the

principal capitalist powers: Now is the time to act and stop uncontrolled speculation, because, if they wait to act, it could be too late to stop grave harm to themselves in recession and unemployment.

“A half-century ago, these kinds of negotiations brought about the formation of a reasonably efficient order. This order is finished, and it is time to find something new.”

Russian “reformer” **Grigori Yavlinsky** evinced a quick change of heart in an interview with Italy’s *Corriere della Sera* on Aug. 28. When President Clinton goes to Russia in early September, he should invoke Franklin Roosevelt’s New Deal: A Russian New Deal should be preceded by “emergency therapy.” “First, we must guarantee the survival of citizens, prevent them from starving. The emergency therapy must be drastic: Cut taxes on primary goods, favor national production, suspend the activity of private banks, and increase the power of the central bank.”

On Aug. 25, Russian Premier-designate **Viktor Chernomyrdin** told *Komsomolskaya Pravda*: “The protection of social interests will be our first priority. The second will be state industrial policy, since we can’t take Russia out of the crisis by purely monetary means.”

The same topic was addressed at press conferences by State Duma Speaker **Gennadi Seleznyov**. He reported that the “tripartite commission” of representatives from the Duma (parliament’s lower house), the Federation Council (the upper house), and Chernomyrdin’s office, is working on a draft economic plan, using recent Duma resolutions, the Kiriyenko government’s partially approved “anti-crisis program,” and the Federation Council’s “guidelines for government anti-crisis activities,” the latter drafted chiefly by Sergei Glazyev’s Analytical Center at the Federation Council.

Seleznyov was asked, “The focus is now on the anti-crisis program. Could you indicate the possible points of disagreement?” He replied: “I don’t know what stumbling blocks may appear, but the main thrust of the program is to provide Russia with an industrial policy. We want to see the improvement in the welfare of our people and rehabilitation of the industry.”

He continued, “If this main emphasis is preserved and if the government makes suggestions about certain growth points and how the economy can be restarted, and indicates which enterprises will implement that program and how—that would mark a step forward. So far, there is nothing but talk about the industrial policy. . . .”

“You see, they all regard the industrial policy as monetarists, they believe that all economic processes can be regulated only by the ruble and the dollar. This is a most profound delusion. Everything is by far not like this. There must be a state protectionist policy, a tough protectionist policy if we want to provide our people with jobs, pay them wages, give them a pension worthy of human beings.”

At another press conference, Seleznyov, reported that the “tripartite commission” must formulate its “anti-crisis concept,” before a coalition government can be formed. He noted that the cash money supply in Russia is only 4% of so-called GDP, the lowest ratio in the world, achieved in the name of “curbing inflation.” But, what about relatively non-inflationary currency emission, in coordination with the central bank, functioning as a national bank, earmarking approved categories of spending it? Seleznyov said: “Printing money should be one of the anti-crisis measures. Emission of money under strict government control. This money could be directed to special accounts in the Central Bank and designed to pay for government contracts. As you know, at present the government is not paying anyone for its contracts. This money will not vanish, this money will not be converted into dollars. It will be used to pay workers, engineers, those who have already fulfilled the government contract and whose output is already working, but people have not yet been paid. There is nothing terrible about this.”

These measures are similar to those outlined by Academician Leonid Abalkin, most recently in the Aug. 1 *Ekonomika i Zhizn* weekly, on the need for a state-guided monetary and credit policy, aimed to restart real growth, as the only way competently to create a tax base.

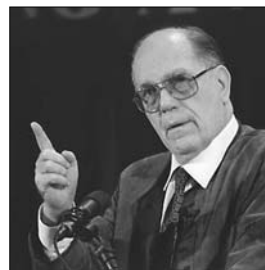
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