
Interview: Sergei Glazyev

'Serious changes' needed in Russia and the world economy

Dr. Sergei Glazyev, the prominent Russian economist, was interviewed for EIR on Oct. 14 in Moscow, by Karl-Michael Vitt.

EIR: Please characterize the financial situation in Russia.

Glazyev: The collapse of the Russian financial system was predicted much beforehand. We published a lot of analytical papers, describing how this financial pyramid of short-term government debt would collapse. So, it was nothing extraordinary, and it was quite the natural result of a macroeconomic policy which was conducted in favor of financial speculators. For about five years, the Russian government supported financial speculators, giving them government guarantees, providing them 100% interest-rate profits on government bonds, while doing nothing for the promotion of the real sector and productivity of the economy. This resulted in huge capital flight from the real sector into financial speculation, and abroad. A sort of bubble economy was constructed, which obviously was going to collapse this year.

Unfortunately, the decisions which were made by the Russian government and Central Bank made the situation even worse. Because of those decisions, not only the government's financial system turned out to be bankrupt, but also, almost, the largest commercial banks were bankrupted, because the government, and the Central Bank, cheated them. I mean the former Russian government, headed by Mr. Kiriyenko, and the Central Bank, headed by Mr. Dubinin. Mr. Chubais was the key financial adviser of Mr. Kiriyenko, and he was the real author of those decisions of the 17th of August, which brought Russia to its financial troubles.

There were a lot of opportunities to have averted this catastrophic result, using much more smooth methods to remove this huge burden of government short-term debt. For instance, last fall I proposed a special arrangement with the Central Bank, to restructure those government bonds that are held by the Central Bank (that is, half of the total of government bonds outstanding). This would have provided an opportunity to overcome the debt crisis, without default of the government. But nothing like this was done. Instead of this, all the obligations were declared to be restructured, abruptly and by surprise, without any clear procedure. Thus, the government and Central Bank made decisions which bankrupted not only the government financial system, but also the banking

system as a whole. I think those decisions undermined the stability of the Russian economy.

Now, we are looking at how to get out of this crisis, and to use this financial crisis in order to find an economic growth policy, to promote the real sector, and to stimulate the growth of investment and production.

We now have a revision of economic policy under way, to switch from maintaining the financial speculators, to the promotion of growth of productivity and investment. I hope that the new government will succeed.

EIR: The Western media always describe this as a "Russian crisis," having nothing to do with the world financial crisis. How do you see the connection to the world financial situation?

Glazyev: The point is, that the major players in the Russian financial bubble economy were foreigners. They have about a 60% share in the securities market, including about 30% of the government bond market.

The world financial crisis which started last fall undermined the financial pyramid of Russian government debt. Of course, it was going to collapse, in any case, and the major cause of the Russian financial crisis is the stupid financial policy, conducted by the Viktor Chernomyrdin government and Mr. Dubinin, who used government guarantees to provide 100% interest rates on government bonds. Nobody could survive, under those conditions.

But, at the same time, the entire system was designed in 1997, mainly for foreign investors. This stupid policy could have collapsed two years ago. Without the inflow of fresh foreign speculative capital, it couldn't survive. But during 1997, it was mostly the influx of foreign capital that supported this financial pyramid policy.

And, to my mind, we see now how the forecasts which were made by Mr. LaRouche come into reality. The world financial system becomes very unstable. I think that in the world, we now have a situation similar to that of the Russian national economy.

The world financial pyramid and financial speculation created such a huge gap between the real sector of the economy and the financial sector, that the capital markets have just bankrupted Russia. We do not see good mechanisms for capital transformation. Instead of providing capital to the real



Dr. Sergei Glazyev, at the National Press Club in Washington, D.C. in March 1995.

sector, the financial sector is extracting capital from the real sector. And, of course, this leads to economic disaster.

EIR: In his latest papers, Mr. LaRouche has proposed to reestablish the full sovereignty of nations, to bankrupt the speculative bubble in the world, and return to a policy of capital controls and national banking, in order to get the real sector—the real economy, infrastructure—moving. Do you think that this is also workable for Russia?

Glazyev: I think it is workable for Russia, and I think, even more, that we have no opportunity now to provide the real sector with credit and to maintain the payments system in the economy, other than to use our Central Bank to do this. Because all the commercial banks, which were involved in financial speculation, especially the financial pyramid of the government debt, are now bankrupt. So, there is no other way than to channel monetary policy under government control, and to turn to a differentiated monetary policy, providing capital to the real sector, and using currency controls and capital controls in order to avoid capital flight, which was enormous in the last few years in Russia.

It is impossible to stabilize the ruble, without currency controls now, because the economy is so unbalanced, that any new money creation immediately goes to the currency market and turns into capital flight. Unfortunately, the financial system, based on speculation, was designed to take capital from the real sector to the financial pyramid, and then to transfer it abroad. We couldn't survive, with such a financial system. So, we need radical, rather serious changes, and these changes will lead to the reestablishment of mone-

tary management technologies related to the refinance of the real sector.

EIR: You see that “crisis-management” has not led to success in these last months. What would you think if President Clinton changed his economic advisers and put somebody like LaRouche in, because he is the only economist who warned about this?

Glazyev: What I could say is that, unfortunately, our domestic macroeconomic policy was constructed under the strong influence of American and IMF [International Monetary Fund] advisers. And they share the huge responsibility of the Russian government and the Central Bank for the market failure, for the failure of the market reforms. The IMF played a critical role, and advisers from the American [Department of the] Treasury also played a critical role in forming Russian macroeconomic and financial policy. And we see now, that the strategic mistakes in the macroeconomic policy finally led to the failure of the whole market reform in Russia.

At the moment, we must start everything from the very beginning. And we lost more than \$100 billion during this experiment. So, it is quite obvious in Russia for everybody capable of making economic observations, that the IMF approach was completely wrong, insofar as the Washington Consensus ideology led to economic disaster. And, bearing in mind that American influence is critical at the moment, in the worldwide financial system, we expect that some new people should come; if some new people can come to manage the American international financial policy, perhaps we have a chance to avert global collapse of the financial system.