

II. Conference Panel | Ending the Casino Economy

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The Policy Changes Need to Overcome the Collapse

This is the edited full transcript of the statements of Lyndon LaRouche, Jr. and Helga Zepp-LaRouche, introduced by Russian economist Dr. Sergei Glazyev, at a June 28, 2001 press conference at the International Press Club and Press Center in Moscow and webcast live by www.internet-most.ru. Dr. Glazyev continues today to invoke LaRouche's economics for BRICS nations' steps toward currency and credit independence.

An excerpt of their presentations was shown to Panel 3, "End the Casino Economy Before It's Too Late," of the Schiller Institute's April 15–16, 2023 conference, Without the Development of All Nations, There Can Be No Lasting Peace for the Planet."

Sergei Glazyev: Ladies and gentlemen, first of all I would like to invite you to the parliamentary hearings we will have tomorrow on the same topic. The hearings will be attended by those present here and also prominent scholars, and public personalities and by representatives of our scientific institutes. It will be an in-depth discussion and I would like to draw your attention to it.

For a number of years the world financial system has been in crisis. Everybody remembers the crisis of 1997, the global crisis that started in Southeast Asia and then spread to Russia in 1998. Since then the financial situation in the world became even more unstable and this instability is due to objective problems and regularities.

First of all, due to an appalling scale of financial speculations which became possible when the American Federal Reserve System refused to exchange dol-



EIRNS/Richard Magraw

Lyndon and Helga LaRouche, invited by Sergei Glazyev (right), hold a press conference with him in Moscow before their testimony to a hearing of the State Duma, Moscow, June 28, 2001.

lars for gold while simultaneously the dollar became the world reserve currency. Beginning from 1971 we have witnessed a massive expansion of the American currency in the financial markets and mega-speculators who are closely linked with the Federal Reserve take advantage of these "soft" budgetary restrictions, the possibility of an endless credit expansion to derive super profits from financial speculations.

In recent years we have seen a proliferation of financial pyramids. We have seen some examples in Russia, but they are global in their manifestations. And this state of instability, caused by the aggressive expansion of the American currency in the world markets, results in the economy of "bubbles." That is, these economies are based on self-sustaining financial speculations transacted between major financial companies whose aim may be just deriving super profits from changing economic conditions and deriving super profits from destabilization of national financial systems.

Let me cite Russia as an example. The mega-spec-

ulators who entered the Russian market in 1994 managed to derive between \$20 and \$30 in profit from every dollar invested in financial speculation in the shares of Russian enterprises. You remember that Russian financial pyramids yielded a 1,000% profit margin. When the financial pyramids collapsed, both the private ones and the state pyramiding ... of GKO's [Gosudarstvennye Kratkosrochnye Obyazatelstva, short-term ruble-denominated treasury bills], and the Russian currency reserves were exhausted due to a flight of capital from the country, the Russian economy was devalued by 30 times. A three-fold devaluation of the currency times a ten-fold drop of securities prices yields a 30-fold drop in prices of Russian assets.

And since then the assets of the Russian economy have been about 40 times cheaper than they were before the financial crash. This means that foreign capital, having made a 30-times profit, again enters Russia buying up property rights at prices ten times less than those that existed only two years ago. So, per every dollar of financial speculations invested in the Russian economy in 1994 one can purchase \$1,000 worth of property rights. Such arithmetics of financial speculations explains the prize of the global financial game. But this game cannot last indefinitely and we see that the self-destructive wave that inevitably arises in such an economic system has reached its core, the economy of the United States.

A U.S. Crisis

During the past year, several series of crises shook the financial system in the United States. Each such crisis, had it happened ten years ago, would have created panic and endless comment in the press. Unfortunately, today we have become so used to the turbulent state of the financial system that we tend to dismiss losses running into trillions of dollars. The financial crisis has become permanent; it tends to deepen. Many scientists, including Mr. LaRouche, whom we have invited to take part in the parliamentary hearings, argue in their works that the collapse of the system of financial speculations is inevitable.

We therefore have an objective given. In the context of liberalization and openness of the Russian economy we should protect ourselves against adverse consequences of the financial crisis. These consequences can be dire, considering the degree of dollarization of the Russian economy and the dependence of our financial system both on external credits and on state loans.

In the situation of a mounting financial crisis it is necessary to make the Russian economy less sensitive to its negative consequences. This is the problem to which the parliamentary hearings tomorrow will be devoted. We are worried by the fact that neither the Central Bank, nor the Finance Ministry, nor the Economics Ministry notices these problems.

When the chairman of the European Commission, Mr. [Romano] Prodi, was here recently and raised the question of closer coordination between the EU and Russian currency and fiscal policies, this question was not even heard. This is how far our government and the Central Bank are from the current condition of the modern financial system. They strongly believe in the dollar and its stability, and believe that the pegging of the Russian economy to the dollar is an anchor that will ensure long-term stability. But in reality it's not an anchor but rather a very serious threat that may show at any moment. If a financial crisis breaks out within the next few months, it's not hard to imagine what losses Russian enterprises, citizens and the state will sustain because they keep their savings in the U.S. dollars.

We have to talk about making our financial system more stable. But first of all, it is necessary to strengthen our national currency but not in terms of making the exchange rate more stable, but in terms of using the ruble as a currency.

Today the ruble seems to be stable but in reality it services only one-third of all transactions in the economy. The rest are off-sets, barter, money surrogates and foreign currency.

The ruble is practically not used in Russia's foreign trade which is conducted in dollars. The ruble is not used as a reserve currency even in the neighboring countries. So, the ruble has basically turned into a quasi-currency that is pegged to the U.S. dollar. It's abnormal. This creates a tremendous threat to the stability of our economic system. And we believe that the Central Bank should take the possibility of a global financial crisis very seriously and think about ways to make our monetary system more stable and expand the ruble area, including start conducting foreign trade operations in rubles and the national currencies of partner countries, diversify our currency reserves, make currency control more effective as a means of preventing an export of a financial crisis to the Russian economic system.

These problems will be discussed tomorrow. I am inviting you to attend. Today we will be happy to answer your questions.

Moderator: Thank you, Sergei Yuryevich. Let me now give the floor to Lyndon LaRouche, an American economist and the founder of the magazine *Executive Intelligence Review*.

Lyndon LaRouche: I shall address three subtopics at one time. That is: the nature of the collapse; second, the possibilities of action to correct the effects of the collapse; and, thirdly, the indications now, of the possibilities that a successful transformation can be made.

Financial Collapse

The present world financial crisis is in its terminal phase. We can not predict the exact day on which the collapse will occur, because it will depend upon certain political decisions, which will accelerate or delay the point of actual collapse. But, the collapse is inevitable. The world financial system, the world monetary system, in its present form, will soon cease to exist, period.

Now, contrary to some people, a monetary crisis is not the worst thing that could happen for the world—it could be the best. It's like going to a doctor to have a cancer removed: It could be the best thing that can happen to you. The reason the system is collapsing, is that it should never have existed. Decisions made in 1971 to change the international monetary system, followed by decisions made in 1979–1991, have created the present mess.

The key is obvious—or should be obvious. First of all, we have to put the existing system into bankruptcy reorganization. That means, the \$400 trillion in short-term debt outstanding, which, to a large degree, should be cancelled. Remember that the world GDP is estimated, in dollars, at \$42 trillion a year, right now. In addition to the normal debt, which is piled on nations, we have about \$400 trillion in various kinds of soft, speculative gambling-debt types of debt. We should remember that, at the end of the last World War, we put weaker currencies through fundamental reorganization, of that type. We had the experience of [France's Charles] de Gaulle's "heavy franc," as a form of that, similar type.

Credit and Productivity Solution

Now, the possibility of recovering depends upon establishing fixed-parity rates among currencies—at least principal currencies. In other words, in order to get growth, you must be able to have long-term credit extended—first of all—extended at 1–2% simple interest. In other words, if the rate of interest is higher than the

rate of possible technological and physical growth in agriculture and in industry, you can't carry the debt. What we must do, is what was agreed upon at Bretton Woods in 1944–1945: Peg all currencies to a fixed-exchange rate, pegged on something like a gold-reserve system.

End free trade and end globalization. You can not have production, unless you can provide to the people who are producing, an income which enables them to stay in business. If you can not provide reasonable conditions of family life and health care for families, they can not continue to be a family, to function.

What you need is, a long-term system of agreements, usually extending up to 25 years—as, for infrastructure—to start rebuilding the economy from the present mess it's in. That's what the United States, Western Europe, and Japan did between 1945 and 1964. Under those conditions, those parts of the world increased their prosperity and productivity, continuously. Since 1971, we have been living by cannibalizing ourselves. And, with the collapse of Comecon [the Council for Mutual Economic Assistance] and the collapse of the Soviet Union, the world went insane, and they began to cannibalize everybody.

If we can get into a partnership around a key number of nation-states, on such an agreement, to reorganize the world system, we can come out of this mess—slowly, but we can come out of it.

The second point: Contrary to the usual free-trade economists, progress does not simply occur. Every period and every part of the world's economy has had a directive behind it, a purpose, a mission. When President de Gaulle was President of France, he called it "indicative planning." In the United States' history, between 1861 and 1876, one of the highest rates of growth of any nation in the world [was achieved]; it was the planning by Henry C. Carey and Abraham Lincoln that resulted in that achievement.

This is not just an example: This is a part of Russian history, as well as much of the rest of world history. The United States had a convention, a Centennial Convention in 1876 in Philadelphia. As a result of this conference—attending it were the great Russian [Dmitri] Mendeleev; attending also, were people from Germany, people from Japan. As a result of this conference, in 1877, [Chancellor Otto von] Bismarck changed the policies of Germany to the American System. At the same time, Mendeleev was able to convince the Tsarist government of that period, to imitate the United States transcontinental railway system. And, under the

influence of Mendeleev, and later [Sergei] Witte, there was an industrial development of Russia, centered on these concepts. At that time, Japan accepted the same American System, and changed its economy and its national government.

It was the great, sometimes wartime projects of mobilization, which gave us all of the technology-drivers from which every great economic recovery came. And no new monetary system can function without a corresponding economic-policy driver—long-term goals. All great movements of economic development have taken at least a quarter-century to realize.

U.S. and Eurasian Recovery

Now, the greatest opportunity in the world, today, for economic recovery of the world, lies in Eurasia. For example: South and Central Asia, or South and North Asia, are essentially deserts, today. They are inhabited, but they are not developed. For Russia and for Central Asia, a Central Asian development, and even the tundra region of North Asia, is crucial for Russia's future. To develop those resources, we must have, first, the basic economic infrastructure to be able to exploit them efficiently.

We have Western Europe, which has economic potential, but which is presently bankrupt; it can not survive for its present purpose. The greatest concentration of world population, is in Central and East and South Asia. They have some technology in those areas, as China's made progress, India's made progress; but there's not enough technology to meet the needs of the entire population of this region. The continued survival of the economies of Western Europe depends upon being able to utilize these markets for high technology in Asia.

For the next 25 years ahead, Eurasia, as a continent, represents the greatest frontier of potential growth, for the world as a whole. What's the reason? Russia, as the only truly Eurasian nation, is the necessary and essential link, between globally extended European civilization as a whole, and East and South and Southeast Asia. Without this coordinating role by Russia, the kind of realization which I indicate is needed, would not be possible.

To maintain security in Eurasia, so that insecurity doesn't blow up the possibility of economic development, we also, must have a dialogue of cultures, as President [Mohammad] Khatami from Iran, proposed in a recent address he gave in Berlin. Because, you look at Asia, and Russia's in part a European culture, even though it's a Eurasian nation. You have most of

the world, such as the Americas, dominated by a globally extended European culture.

Then you go to China, you go to India, you go to Southeast Asia, and the cultural paradigms are different than they are for Europe and European cultures. The point is, therefore, we have to think of the danger, the threat of religious and similar kinds of ethnic warfare, as disrupting the potential future peace and economic security in Eurasia. And, therefore, we must accept the proposal, which was outlined by Iran's President Khatami, in that recent visit in Berlin: We must understand, that to achieve economic security, we must achieve security through a dialogue of cultures, which prevents things like religious wars from destroying the opportunities before us.

Now, finally, in the final point: What is the likelihood we might succeed, in this fine reconstruction of the world economy? President Putin's recent agreement in Shanghai, in the formation of a new consulting group, is an important step in the direction I've indicated. It is not the final step, but it is an important step, which echoes what [Yevgeny] Primakov ... launched when he was Prime Minister: the idea of a triangular pivot—Russia-China-India—for bringing relations in Eurasia together. That's a first step. The discussions between the President of Russia and the German government and German circles, are another aspect of the same Eurasia potential.

Now comes the final catch: What's the role of the United States in all of this? Well, we have a disaster in the new Presidency. But, we have some improvements, since he became President: We have Democrats who have taken over the Senate; significant numbers of Republicans are in revolt; every policy the President has put forward, has failed already. The gulf between the United States and Europe is deepening. Many of us in the United States of political influence, are very concerned about this situation. And, we are gaining some ground. So, we may get to our objective, but it will only be through a series of crises.

All I can say is, from my standpoint, the situation is clear, the alternative is clear, and what we must do is clear. We must be clear in our own minds, about what we need to do. Then, I think we might succeed.

Thank you.

Moderator: Thank you, Mr. LaRouche. I now give the floor to Helga Zepp-LaRouche, the President of the Schiller International Institute, Germany.

Helga Zepp-LaRouche: Given the fact that I'm a German citizen, I just want to add, why it is in the fundamental self-interest of Germany to cooperate, not only with Russia, but with all the countries of the Eurasian Land-Bridge. The situation of the German economy and financial system, is not less dramatic than that described by Mr. Glazyev for Russia, or by Mr. LaRouche for the whole world. The *de facto* bankruptcy of the capital of Berlin, and the bankruptcy of Berliner Bankgesellschaft and the five banks involved, is actually the condition of every German bank. Right now, the inflation rate in Germany is 3.6%, according to the Federal Constitutional Court. For the euro transition, inflation can only be 3%.

So, we may see, very soon, constitutional actions to prevent the euro from coming into being. Especially because there is, behind the scenes, panic in government and financial circles, about the fact that there are about 200 billion d-marks in cash, in addition to the several hundred billion d-marks in the central banks, which expectedly leads to total chaos in the transformation. So, Germany will be hit, in the second, third, and fourth quarter of this year, with a combination of an increasing tendency of hyperinflation, depression, and chaos in the euro transition.

So, in this chaos, the euro may not come into being, which for the survival of Germany and Western Europe would be the best thing to occur. To maintain sovereign national currencies, in the context of economic cooperation of the Eurasian Land-Bridge—this serves the

best interests not only of Germany, but of every European country.

Germany is dependent, economically, on expanding export markets to ever-richer customers. Globalization has destroyed the traditional export markets of Germany: Africa is dying; Latin America is about to go the way of Africa; and many areas of the world are plunging into catastrophe. In the German interest, the collaboration of Germany with Eurasia, with the development of the Eurasian Land-Bridge, is an economic self-interest. On a deeper level, it is in the security interest of Germany, because we in Germany remember very well, the connection between depression and war. If the existing plans in 1931 to overcome the depression, which existed in Germany around Dr. Walter Lautenbach and the Friedrich List Society, would have been implemented, the coming to power of the National Socialists could have been prevented.

Today, the danger of war exists in many places, in the Middle East, in Africa, in many other regions of the world, and I think it requires, today, the vision of all the countries of Eurasia, together, to determine a peaceful order, or future, and not the degeneration into war.

So, I'm preparing every positive force in Germany, and other European countries, to become part of such an alliance for a new financial system, and Eurasian Land-Bridge, as the cornerstone for a global reconstruction program, in the months to come.

Thank you.

Dennis Small

The Missing Ingredient: LaRouche's Principles of Physical Economy

Dennis Small is Ibero-America Editor and a member of the editorial board of Executive Intelligence Review. He keynoted the April 16 third panel, "Ending the Casino Economy Before It's Too Late," of the Schiller Institute's international conference, "Without the Development of All Nations, There Can Be No Lasting Peace for the Planet."

Subheads have been added.

Good morning and good afternoon. In the historic press conference that



Dennis Small

Schiller Institute

Lyndon LaRouche delivered on June 28, 2001, the day before he and Helga Zepp-LaRouche presented testimony before the Russian Duma's Economic Committee—in the statement that you have just heard—what he said at the very outset was the following, and I want to read you this sentence again. He said:

No new monetary system can function without a corresponding economic policy driver and long-term goals.