

Sciences. The event was attended by some 150 parliamentarians and government advisers, and simultaneously broadcast to all Duma offices, and to the Kremlin, by closed-circuit television. Official written transcripts were issued the following Monday, July 2.

Although LaRouche's authority has been rapidly growing worldwide, especially since the collapse of the "New Economy" bubble in the United States and elsewhere, this was the first official invitation of its kind, coming from the parliament of a major world power. Observers pointed to the significant irony, that the invitation came from Russia, and not LaRouche's own U.S.A.—the epicenter of the ongoing financial crisis.

The day before the Duma hearings, an international press conference was held at the famous Central House of Journalism in Moscow. Before a packed audience of journalists and television cameras, Glazyev, Lyndon and Helga LaRouche, Jonathan Tennenbaum, and the Russian finance expert Dmitri Mityayev spoke on the main themes to be addressed at the Duma hearing. The press conference was attended by 5 television stations, 2 radio networks, and 17 major newspapers and magazines, and broadcast simultaneously on the Internet. Excerpts of the press conference were broadcast on several television stations the same evening (see last week's *EIR*).

The official parliamentary hearings began at 10 a.m. on June 29, in the building of the Russian State Duma. We present below extensive excerpts from the proceedings, some translated from Russian and some in the original English.

In the evening, after the successful Duma hearings, members and close contacts of the Schiller Institute celebrated a dinner toast, declaring June 29, 2001 to be "Schiller Day in Moscow."

Sergei Yu. Glazyev

Russia Is Facing Financial Shocks

The following are Sergei Yu. Glazyev's opening remarks at Parliamentary hearings "On Measures To Ensure the Development of the Russian Economy Under Conditions of a Destabilization of the World Financial System," held in the Maly Zal of the building of the Russian State Duma, June 29, 2001. The hearing was under the chairmanship of Glazyev, who is chairman of the Duma Committee on Economic Policy and Entrepreneurship. The text has been translated from Russian, and subheads have been added.

Our Parliamentary hearings will be devoted to an urgent prob-

lem: the adaptation of the Russian economy to threats from the global financial crisis.

We remember very well the events of 1998, when within a period of only two weeks the Russian economy was devalued by a factor of 30. And to this very day, millions of citizens cannot recover their savings, which were lost as a result of the financial collapse, and they probably will never get them back. The Russian banking system has not regained its maximum pre-crisis level, for either assets or capitalization. Therefore, it is very important for us today, when the Russian economy has entered a growth phase, to carefully evaluate our own sad experience and the experience of other countries, in order to ensure that the potential threats, connected with the deepening of the global financial crisis, do not interrupt the recovery of our industry and our economy as a whole.

The situation appears rather contradictory. On the one hand, we are told that there is no direct danger of a financial catastrophe, and, in particular, that the American economy, according to the statements of many officials, will successfully emerge from the state of instability which arose last year and at the beginning of this year. Nevertheless, there exist certain laws of economic development, whose action cannot be avoided, and which we should always bear in mind, regardless of conjunctural economic fluctuations.

We have invited well-known financial experts to our hearings, working on financial markets, macroeconomic forecasting, and the legal regulation of investments. Among them I am grateful to Mr. LaRouche, Mrs. LaRouche, Mr. Tennenbaum, and Mr. Karl-Michael Vitt, for agreeing to our proposal that they put forward the results of their investigations, which, in general, are quite well-known in the world and which show the depth of the crisis situation in the global financial system. We have colleagues here, who accepted our invitation. On behalf of the Committee on Economic Policy, I want to express our thanks to them.

Unfortunately, our Deputies, and the Russian public in general, have only a weak appreciation of the real data on the state of the global financial system. One can say very directly, that neither in our press, nor in discussions, is this theme regarded today as an urgent one, requiring attention.

I do not wish to run ahead of the presentations. I hope, or rather I am certain, that they will be interesting and comprehensive. But, I would like to say a few words, perhaps, to shape our discussion.

The Bubble Economy

As you can see from reports received—in spite of the appearance of prosperity, both in our country, and in the leading Western countries—in reality, the global financial system is experiencing rather major problems. Beginning in 1971, we have had a unique situation in the world, when the U.S. dollar has assumed the role of a global currency, whose emission is not subject to any serious restrictions.

The financial structures, tied to the money-emission center of the American currency, function under loose budgetary



Dr. Glazyev (center) chairs a press conference at the Moscow Press Center on June 28.

constraints, as we say. That is, they have access to refinancing in dollars from the Federal Reserve System, corresponding to the worldwide demand for dollars. This demand has been artificially supported since 1971, by a variety of speculative financial activities. These speculative activities suck up an enormous quantity of capital, thanks to the principle of financial pyramids, upon which they are based, according to which artificial demand is created for one or another sort of financial security, and derivatives thereof.

The result of this, is the so-called bubble economy, when behind a facade of furious economic activity and high profits on the financial markets, what we really see is the bankruptcy of the real sector of economy, and the deterioration of real productivity. And all the apparent prosperity is built simply upon the redistribution of national wealth to the advantage of financial speculators. Financial pyramids always result in a crash—the collapse of those national financial systems, which have been drawn in, or allowed themselves to be drawn into of this type of financial pyramid.

The crash, which Russia experienced, of course, had internal causes. Above all, there was our own pyramid—first, the pyramid built from the securities of privatized enterprises, and then the GKO pyramid, which inevitably collapsed, dragging with it billions of dollars of currency reserves, which escaped abroad, and causing 400 billion rubles in losses. But the people who speculated on our markets, were able to increase their fortunes dozens of times over. It is estimated, that for \$1 invested for speculative purposes into the Russian financial system, the lucky investors ultimately, or, more precisely, by the middle of 1998, could obtain \$20-\$30 in accu-

mulated profit. By moving this money out of Russia before the financial crash, they could put it back in later, acquiring property rights in the Russian economy worth \$900 in pre-crisis prices, due to the devaluation of all assets of the Russian economy by a factor of 30 after the financial crash.

The Chaos Is Out of Control

This example illustrates the magnitude of the loot, which can be obtained in the world economy by those who skillfully manipulate it into a state of managed chaos. But the problem today is, that this chaos has gone out of control.

The national debt of the United States exceeds all reasonable limits. The financial systems of Southeast Asia and Russia were destroyed following the 1997 financial crisis episode. Tens of billions of dollars were required, to save the financial system of the Latin American countries from the crash. But the stresses have only grown since then, because the machinery for extracting speculative superprofits cannot stop all by itself; it moves according to real laws.

And today, we see that the center of crisis is shifting to the nucleus of the global financial system. The shocks, which occurred on U.S. markets last year and at the beginning of this year, would have been regarded as financial catastrophes, if they had taken place five years ago. But, today, we are already so accustomed to permanent financial crisis, that we don't even take notice that the loss of \$3 trillion on the American stock market for high-tech corporations, and related segments of the market, is a very serious shock, after which one should expect further shocks to the global financial system. In other words, the flywheel of unlimited financial specula-

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.

Lyndon H. LaRouche, Jr.

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