The Role of the U.S.A.

It would appear to many, that, since the present U.S. Bush Administration is hysterically opposed to any reforms along the lines I have outlined, the reforms I have indicated would be unrealistic ones. Behind that Administration's mask of mixed self-delusion and willful deception, the reality is quite different than many around the world have been misled to believe.

If you look at the widely circulated broadcast and other reports I have given since late November of this past year, the current Bush Administration has followed the ill-fated course of policy-making I had warned it would, during the period prior to Jan. 20 of this current year. Already, as a result of Bush Administration blunders against which I had warned, the first phase of a political revolt against the new Administration has occurred, in the form of a Democratic Party regaining of control of the U.S. Senate.

Now, as the second quarter of 2001 has been a worse catastrophe than the first quarter, and the third is on the way, the currently leading internal political issues of the U.S., energy, inflation, and health care, will be taken over by a growing panic over the obvious onrush of a general economic depression.

With the presently accelerating collapse of the U.S. as the world's chief importer of last resort for Asia and other parts of the world as a whole, the world is near to that sense of global crisis, at which the need for a general, more or less planet-wide monetary and financial reform will be a leading theme of political discussion in many parts of the world, including the U.S.A. itself.

I shall not predict that the U.S.A. will be prepared to propose cooperation with the kinds of economic and related cooperation with which President Putin's efforts are associated. I merely say that under the likely changes in mood now developing within the United States, the dumping of fanatics such as Zbigniew Brzezinski, in favor of U.S. cooperation with a Eurasian development perspective, ought to become U.S. policy. It should be seen as a policy well worth working to make a reality.

A growing number of influential U.S. circles, within the U.S. Democratic Party, and other circles, are now persuaded that my warnings and proposals are relevant. I am presently enjoying some significant political support for these efforts inside the U.S. and elsewhere. However, since, in politics, nothing good is ever guaranteed by fate, we must work all the harder for success.

Thank you.

Sergei Glazyev: Perhaps you will sit here [at the dais], to answer questions. If there are no questions now, I think they may arise later, and we can come back for discussion, especially because we have planned a series of presentations, which will provide additional food for thought and conclusions.

Jonathan Tennenbaum

The Financial Crisis Grips the United States

Jonathan Tennenbaum is a scientific adviser to the Schiller Institute. The text has been translated from Russian, and subheads have been added.

I would like in my presentation to focus on some fundamental aspects of the global financial crisis, especially the nightmarish situation that has developed in the American economy and financial system.

Ordinary people most likely would say, "We in Russia would like to have the problems that the Americans have. The Americans are so rich, that things could never be as bad as they are here." Indeed, there's a lot of money in the United States—*too much*. That in itself is a main symptom of the illness. These monetary aggregates are not connected with the creation of real wealth, but were generated through gigantic monetary emissions by the Federal Reserve System, combined with the so-called credit multiplier of the banking system.

In this way, during the 1990s the greatest financial bubble in human history was created inside the financial systems of the United States and other countries. That bubble is now collapsing. And, in contrast to the illusions of some monetarists, this collapse process is absolutely irreversible in terms of its destructive effect on the world economy as a whole.

I would like quickly to show you some graphs, which I think represent certain essential aspects of the problem in the world, and America in particular. First of all, you can see here what LaRouche calls his "Triple Curve" (**Figure 1**), which gives a qualitative representation of the crisis. On the one hand, you have a steep growth of the nominal value of financial assets—stocks, bonds, and so forth—shown by the upper curve. At the same time, there is growth, or expansion of the money supply, both the direct printing of money, and the expansion of the effective money supply through the banking system. That is the second, middle curve. The money supply is expanding, but not as rapidly as the nominal value of the financial aggregates. This was the situation approximately two years ago.

The third curve, the descending one, shows the real growth of the physical economy. You can see this worldwide—that the world economy is experiencing negative growth. I am talking not about the monetary side of the world economy, but the real, physical economy; the real, material standard of living; the condition of infrastructure, and so forth.

FIGURE 1
A Typical Collapse Function

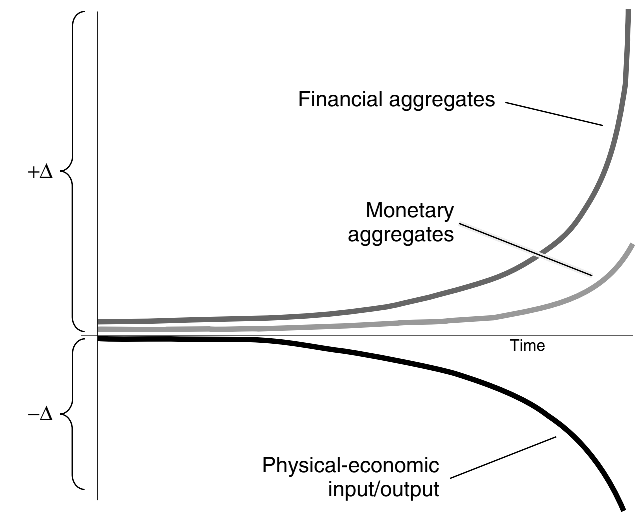


FIGURE 2
The Collapse Reaches a Critical Point of Instability

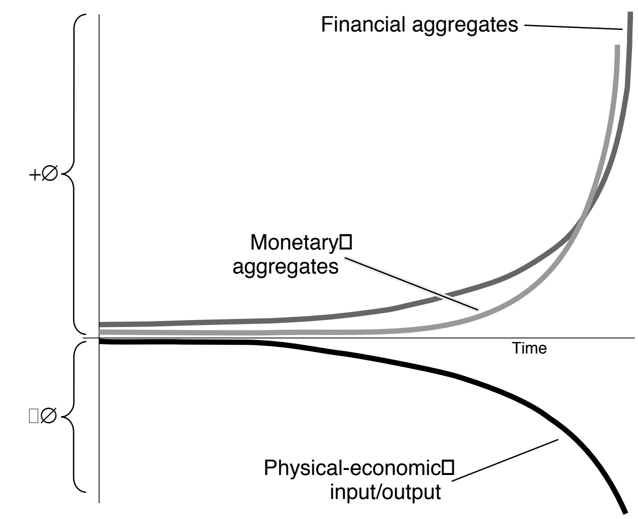
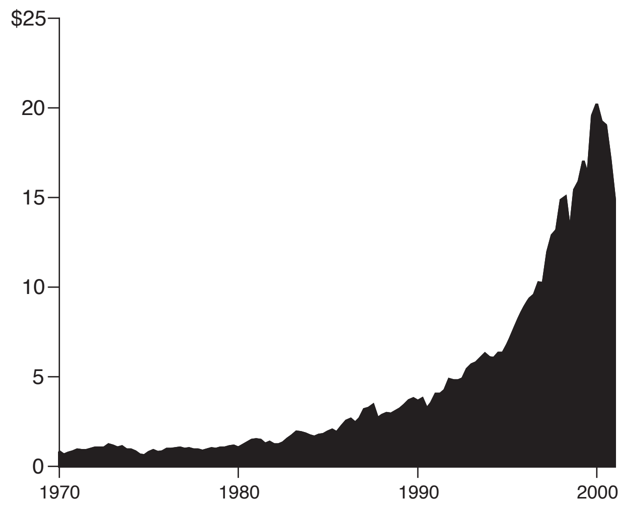


FIGURE 3
Capitalization of U.S. Stock Markets
(Quarterly, 1970 - March 2001, Trillions $)



Source: Federal Reserve.

In other words, there is net looting. Some investments are made, but at the same time, the scale of the looting of the world economy's productive assets is so enormous, that the net physical growth of the world economy is negative. The divergence of these three curves represents the main mechanism of the crisis we are now experiencing.

A Shift in the Situation

My second graph (**Figure 2**) provides a qualitative representation of the situation that has developed during at least the past 12 months, where the growth of the nominal financial value of shares, and so forth, has begun to stagnate. There has even been a collapse of the stock market and other indicators. The growth of the financial asset bubble has stopped, while the pumping of money into the economy continues. In other words, the expansion of the money supply continues, but this mechanism of pumping up the economy by means of increasing the money supply is less and less effective.

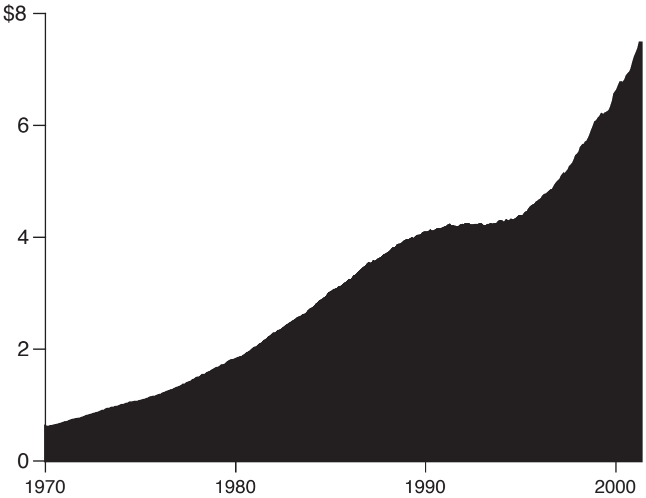
Here we see (**Figure 3**)—related to the top curve of Figure 2—the steep growth of world stock market capitalization, especially in the New York market, which people are familiar with. As I said, the situation has now changed toward stagnation, and even collapse.

If you look at the expansion of the money supply in the United States, the so-called M-3, you see that there was an important turning point in 1994-95 (**Figure 4**). At that time, the U.S. Federal Reserve launched its liquidity-pumping policy, of very rapidly increasing the money supply.

It is very important to see that the so-called "economic miracle" in the United States during the past decade, was created by means of a colossal accumulation of internal indebtedness (**Figure 5**). Everybody talks about the debt problem of Russia, or other countries. But the U.S. economy has the greatest accumulation of debt in the world. Officially, U.S. domestic debt is at the level of $26-30 trillion. Half of this is corporate debt, and the other half comprises household debt and the debt of the Federal government.

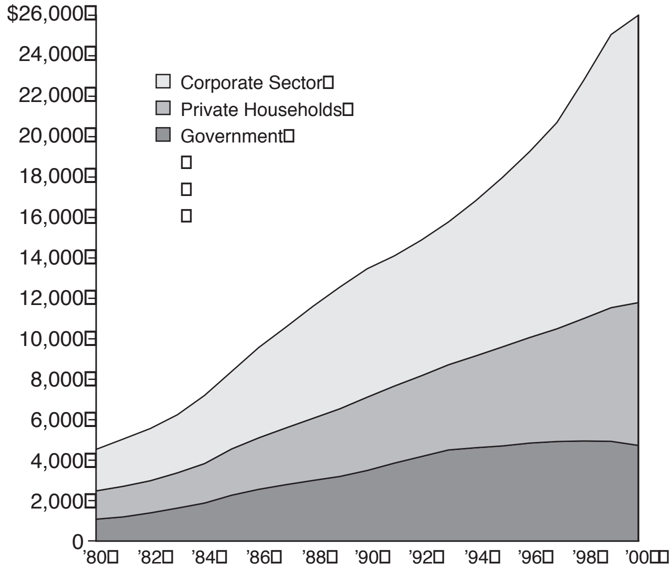
A very interesting aspect is the creation of new debt, that is, the increase of U.S. corporate debt through bank credit and corporate bond issues (**Figure 6**). You can see the steep

FIGURE 4
U.S. M3 Money Supply
(Monthly, 1970 - May 2001, Trillions $)



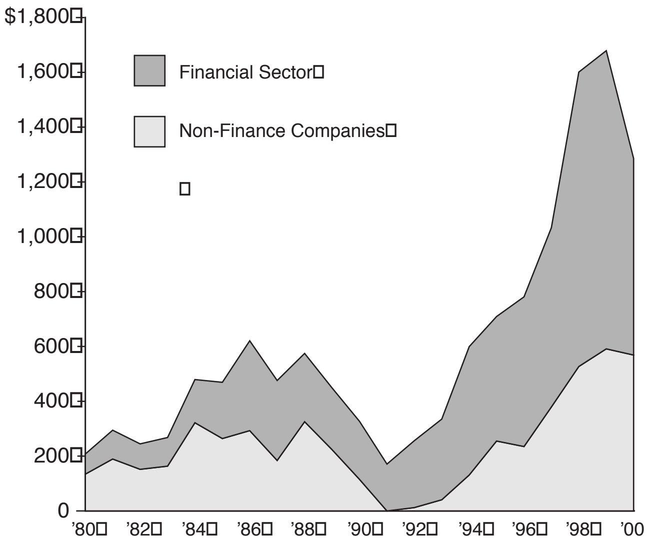
Source: Federal Reserve.

FIGURE 5
U.S. Total Debt
(Billions $)



Source: "Flow of Funds Accounts," Federal Reserve.

FIGURE 6
New Debt of U.S. Corporate Sector
(Billions $)



Source: "Flow of Funds Accounts," Federal Reserve.

growth of corporate indebtedness in the mid-1990s, above all in the telecommunications sector, and generally the so-called New Economy sector, which is supposed to be the basis for the so-called economic miracle in the United States and other countries.

The growth of household debt in the United States (**Figure 7**) shows that this "miracle" is not based on any stable household income, but rather on the expansion of consumer credit. Many U.S. families are now hopelessly in debt, due to the use of credit cards, and so forth.

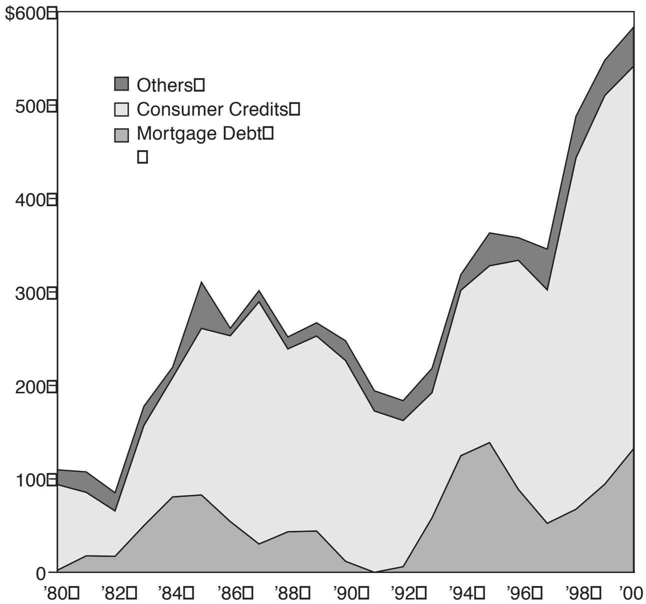
Typical for the United States and other countries now, is that the savings rate has become negative (**Figure 8**). One reason is the growth of the stock market. People took their money out of the bank and put it in the market. Now you have a situation, where about half of American household assets are invested in the stock market. As a result, the collapse of the stock market not only means losses for speculators, but also very serious losses for ordinary people.

Figure 9 is not terribly important, but it is the Dow Jones Index, which you can see has stagnated during the past two years. The market is highly unstable. **Figure 10** shows the so-called Nasdaq index of stock prices for so-called New Economy firms—telecommunications, and so forth. This index has fallen by 50% during the past two years.

Very briefly, I shall show you the echo of these phenomena in the U.S. media. The first picture (**Figure 11**) shows that many hospitals are being closed, including the only public hospital in the U.S. capital, Washington, D.C. It is closed now.

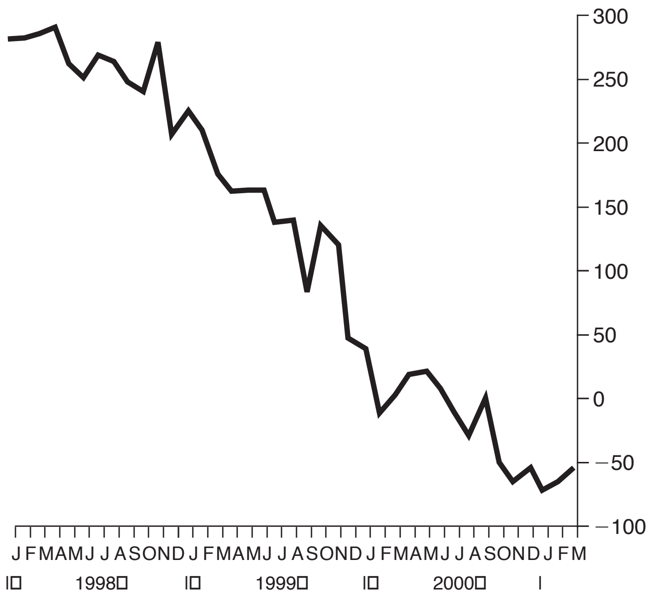
The energy crisis has gripped California, about which I shall say more in a moment. In much of California, the electricity system doesn't work for periods of time (**Figure 12**). Not only in California, but in many other states, schools are unable to pay for power and heat, because of the sharp increase

FIGURE 7
New Debt of U.S. Private Households
(Billions $)



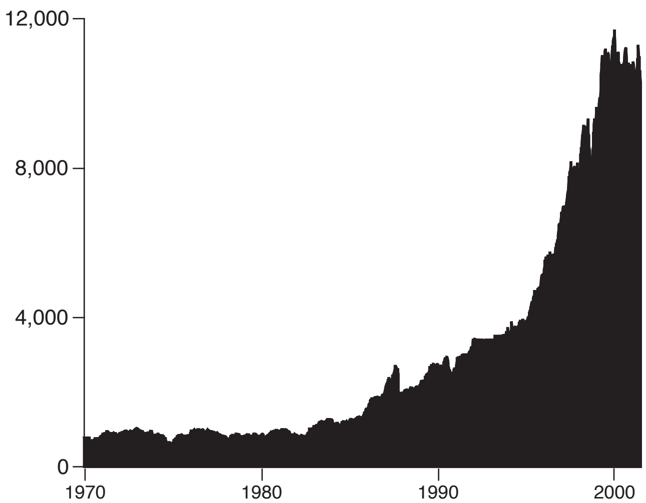
Source: "Flow of Funds Accounts," Federal Reserve.

FIGURE 8
Savings Collapse, U.S.
(Billions $ Per Year)



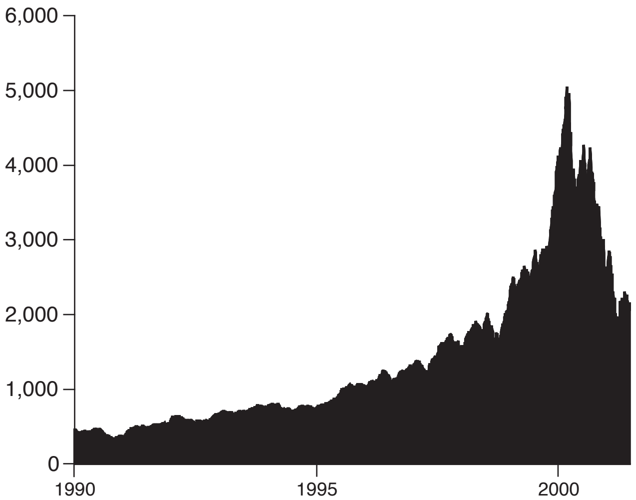
Source: Department of Commerce.

FIGURE 9
Dow Jones Industrial Average
(Weekly Closings, 1970 - July 2001)



Source: Dow Jones.

FIGURE 10
Nasdaq Composite Index
(Daily Closings, 1990 - June 2001)



Source: Nasdaq.

FIGURE 11


Weather

Today: *Mostly cloudy, muggy. High 82. Low 66.* **Monday:** *Partly sunny, late storm. High 84. Low 68.*

Details, Page **C10**

The Washington Post

SUNDAY, JUNE 24, 2001

D.C. General Sends Off Its Last Patient

Tomorrow's Shutdown, and Resulting Health System, a Major Gamble for City and Mayor

Ronald Opey, 56, had relied on D.C. General and its clinics for medical assistance since he was a newborn. "Why can't they leave it like it is?" he asked. Opey was among the hospital's final inpatients last week.

By AVRAM GOLDSTEIN
Washington Post Staff Writer

D.C. General Hospital, the sprawling public facility that has served Washington's impoverished, injured and infected for 195 years, discharged its last inpatient late Friday and is to close tomorrow.

The massive complex at Massachusetts Avenue and 19th Street SE has been the linchpin of the District hospital system, relieving private institutions of much of the indigent care burden and forming the front line for the city's wounded and sick.

A touchstone in the black community, D.C. General has long been a training ground for minority physicians, and in recent years, it has provided respectable trauma, maternity, newborn and HIV/AIDS care. It has been the hospital the poor and the uninsured always knew they could go to if others turned them away, and it was a major employer of African Americans.

But Mayor Anthony A. Williams (D) and the D.C. financial control board concluded last year that those positive factors were outweighed by persistent management failures and the hospital's growing demands on the city budget. So much money went into it that the city could afford few other needed health programs, the administration said.

The mayor boldly gambled that a consortium of private medical providers could care for the city's uninsured and improve the city's overall public health—and save taxpayer money as well. Williams said he has examined innovations in indigent care tried in other large cities and found none to be as "far-reaching" or "inclusive."

The mayor and his aides forged ahead despite relentless emotional confrontations with the D.C. Council, organized labor, the clergy and hunger strikers. Opponents say that patients have already been hurt by the routing of ambu-

See HOSPITAL, *A6, Col. 1*

FIGURE 12


Founded 1857
Volume 289

TUESDAY
March 20, 2001

The Sacramento Bee

www.sacbee.com

State
FINAL
50¢

▶ *The biggest problem was gridlock. Intersections throughout Southern California snarled.*

POWER CRUNCH

▶ *Small alternative energy providers may be trying to get the state's attention by shutting down.*

TODAY: Rolling outages could resume, officials warn

Blackouts pounce again in California

of prices for natural gas and other fuels.

In a few minutes, I shall discuss the problem of derivative contracts in the banking system. Here is an example from Germany (**Figure 13**). Deutsche Bank is the largest bank in Germany. On the left, you see the bank's capital, on the right are the bank's derivatives contracts. These derivatives are very complex, some of these contracts work automatically, and are not regulated or entered on the books. You can see that the slightest instability of these derivatives, can create a huge crisis for the bank.

Sergei Glazyev: Let me make sure this is clear. The red dot, the tiny one, is the capital of Deutsche Bank. The green circle is its assets, and the huge blue circle is the derivatives mentioned by Mr. Tennenbaum—all sorts of secondary securities, which are not even on the balance sheets, if I'm not mistaken.

Tennenbaum: Yes. Alongside the 50% collapse in the Nasdaq, the German Nemax index of telecommunications, Internet, biotechnology, and other such firms, also fell very steeply, from 9,400 down to 1,400 points. In the United States, the total capitalization of New Economy companies fell from $6 trillion to $3 trillion. The shares of the biggest companies in the computer, Internet, and telecommunications sector lost more than half their value. Some of them have already gone bankrupt, such as the giant telecommunications firm Winstar, which filed bankruptcy in April. The so-called New Economy, the economy of the information revolution and the Internet, which was the basis of the "economic miracle" in the United States and elsewhere during the 1990s, is now collapsing.

Another good example is the major Canadian company Nortel, which lost $19 billion just in the first quarter of this year. This is a record in the history of business: $19 billion! There is now an unprecedented wave of corporate bond defaults, especially in the telecommunications sector. In just the first four months of this year, corporate defaults totalled $33 billion, which is more than in all of 2000. Since March 2000, eighteen major telecommunications companies have defaulted on a total of $18 billion. The American telecommunications crisis is also a threat to the banking sector. During the past two years, these companies have taken out more than $300 billion in new loans from American banks.

The most dramatic case is that of the giant Dutch telecommunications firm, KPN, whose stock fell more than 60% in four days at the beginning of June. It is now quite possible that KPN will default on its 23 billion euro debt.

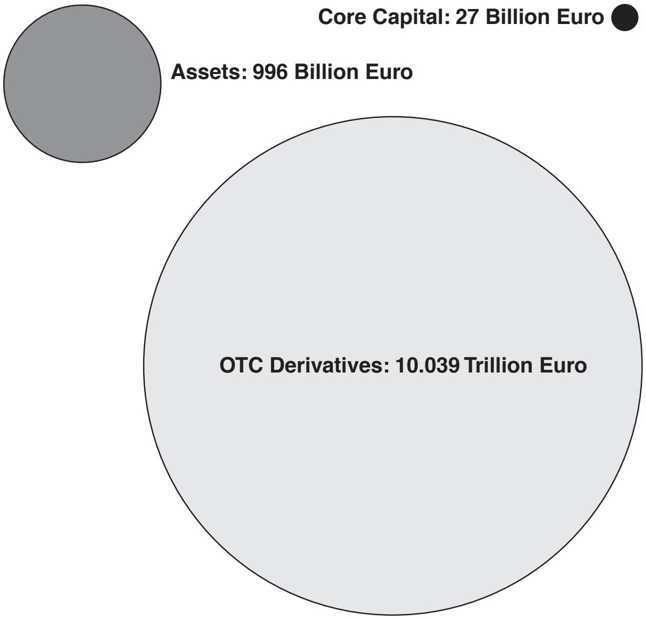
Hyperinflationary Tendencies Have Appeared

I already mentioned inflation. At first glance, one of the surprising aspects of the New Economy of the last ten years in the United States, is the fact that, despite the colossal expansion of monetary aggregrates, created by the policy of supporting the financial bubble by pumping new liquidity into financial markets, there has been no corresponding increase in inflation. Actually, there *was* inflation, but the inflation was limited to an artificial increase in the prices of financial assets themselves. But, over the last 24 months, this situation has sharply changed. Strong inflationary and even hyperinflationary tendencies have appeared in connection with energy and food prices and other goods.

Recently a very cautious expert observer, the head of the Basel Bank for International Settlements (BIS), Andrew Cou-

FIGURE 13

Deutsche Bank Profile, Sept. 30, 2000



per, spoke at the latest BIS meeting on June 11, expressing his deep concern about the financial and economic situation in the United States and the world. He said that the crisis in the United States would be prolonged and deep, and would have a great impact on the global economy. He warned of new financial earthquakes. Couper mentioned that for the first time since World War II, the total assets of American families decreased, while the debt of private households reached record highs in comparison to income. In view of the record U.S. trade deficit (which we estimate at $600 billion) and the unprecedented monetary expansion of recent years, Couper raised the question of whether the United States would be able to continue to support the present level of the dollar, which he believes is considerably over-valued. He said that the devaluation of the dollar is inevitable, and that unless a gradual, controlled devaluation is carried out in the months ahead, there will be an uncontrolled collapse of the global monetary system.

Couper believes that the overall state of the world financial system is unstable, chiefly because the nominal growth of the American and other economies during the past decades has been accomplished only through a huge increase in the money supply and excessive inflation of nominal values on the stock markets. As a result, there is now a collapse on world stock markets; during the past 12 months, total world stock market capitalization has fallen by $10 trillion. In other words, a quantity of money, corresponding to one-third of world GDP, was wiped out.

At the same time, the global pyramid of national, corporate, and household debt continues to grow, and its growth is even accelerating. Couper drew attention to another aspect of the current situation, namely, the sharp rise in the use of "credit derivatives" by banks. In order to protect themselves against the growing risk of loan defaults and bad loans, they issue special derivatives contracts, which are mainly bought by the large insurance companies. Couper notes that the enormous accumulation of these contracts, which—like all derivatives—are off-balance-sheet, has already resulted in a situation where "nobody knows who carries which risks."

It should be added, that the total volume of derivative contracts in the world has reached $300 trillion. The threat of an explosive collapse of the derivatives pyramid is the equivalent, in financial relations, of a nuclear bomb. Once this process begins, no one can stop it.

These warnings, coming from a conservative representative of the international banking community such as the BIS's Couper, should be taken seriously, but they do not describe the full reality of the threat of global economic catastrophe, which lies not only in the financial realm, but in the interaction between the creation and growth of the bubble of fictitious, speculative financial value, and the process of large-scale looting of the real, physical economy of most of the world. This interaction, which is illustrated by LaRouche's "Triple Curve," is poorly understood by most economics and financial experts, who don't study physical economy.

A Crisis of the Entire System

The very fact of globalization, ultimately, shows that the current crisis is global in scale. It has gripped the dollar, the euro, the Japanese yen, and other currencies. It is a crisis of the entire global financial and economic system. The crisis involves the huge accumulation of indebtedness by almost all the countries in the world. With the possible exception of China and a few other nations, practically all countries in the world are in a serious economic and financial crisis. Africa is living a nightmare, there is a nightmare in South America, Europe faces great difficulties, and so forth.

This crisis was the result of a prolonged process, which built up over more than 30 years. It is profoundly structural in nature, irreversible, and cannot be solved by merely technical financial measures. Therefore, people who say that the American economy will soon overcome the consequences of the steep collapse on the so-called New Economy stock market, and then everything will go back to normal again, have failed to understand the problem. Such wrong evaluations, naturally, can be heard every day in the U.S. and other mass media.

There are constant attempts to deny the nightmarish dimension of the world economic crisis. This is nothing new. Before, and even many months after the famous crash of the New York stock market in 1929, leading financial experts and politicians in the United States kept on talking about how there would be no depression, how everything would be normal. So, for example, the famous British economist John Maynard Keynes wrote in 1927: "We will not have any more crashes in our time." In 1928, the well-known industrialist Michael Forbes said: "There will be no interruption of our permanent prosperity." At the end of October 1929, after the sharp drop in stock prices, the chairman of Continental Illinois Bank of Chicago, Arthur Reynolds, assured investors: "This crash is not going to have much effect on business."

In an official forecast in December 1929, the U.S. Department of Labor proclaimed that 1930 would be "a splendid employment year." And, in June 1930, U.S. President Herbert Hoover triumphantly announced: "The depression is over." Only when Franklin Roosevelt became the new U.S. President in 1933, were emergency measures finally adopted for overcoming the crisis, in line with the real situation in the country and the world.

I think that this is a very important lesson for us today in the world and in Russia.

Dmitri Lvov

Russia Must Initiate Solutions to the Crisis

Sergei Glazyev: I would like to ask Academician Dmitri Semyonovich Lvov to comment on the presentations that have been made. . . . Dmitri Semyonovich needs no introduction, being well known to us as the Academician-Secretary of the Division of Economics, of the Russian Academy of Sciences.

Dmitri Lvov: Dear colleagues, I would like to share with you some considerations, which directly concern the important, extremely urgent problem, which has been placed on the table at today's parliamentary hearings. I am concerned that this problem not be oversimplified. There exists a whole array of aspects that need to be brought to light, which reflect real processes and, especially, deep, causal relationships. Then, obviously, we should be able to draw better-grounded, objective conclusions about the situation that has to be dealt with.

It seems to me that, generally speaking, the process of globalization of the world economy is going forward. The leading world power, the United States, has sufficiently large material and financial potential, to today determine a large number of trends in world development. And this cannot be left out of account.

We can say many times over, that we observe crisis phenomena both in U.S. finances, and in the dollar-based world monetary system—and it is really the case. But it would be incorrect not to see also those colossal changes, which have occurred in United States itself. First of all, in the social sphere, and in the restructuring of the financial system of such a powerful country as the United States, without which the world cannot reckon today. . . .

What disturbs me is, above all, the following circumstance. Today's world financial system is really quite unstable; it can be depicted as a sort of inverted financial pyramid, the base of which is the real sector of the economy, which accounts for an estimated approximately 12-14% of the world volume of financial resources, while the upper, wide part of this inverted pyramid, accounts for about 67-68% [of financial resources], the lion's share of which thus have nothing to do with the real sector, but rather involve financial derivatives, speculative operations, and so forth.

And we observe, on the one hand, the colossal successes of the post-industrial information-technology society, which provides unprecedented possibilities for the development of the productive forces and increased productivity: the Internet,