

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. . . .

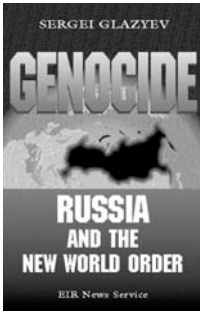
What disturbs me is, above all, the following circumstance. Today's world financial system is really quite unstable; it can be depicted as a sort of inverted financial pyramid, the base of which is the real sector of the economy, which accounts for an estimated approximately 12-14% of the world volume 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,

GENOCIDE


RUSSIA AND THE NEW WORLD ORDER

Russia in the 1990s: "The rate of annual population loss has been more than double the rate of loss during the period of Stalinist repression and mass famine in the first half of the 1930s . . . There has been nothing like this in the thousand-year history of Russia."
—Sergei Glazyev



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Economist Dr. Sergei Glazyev was Minister of Foreign Economic Relations in Boris Yeltsin's first cabinet, and was the only member of the government to resign in protest of the abolition of Parliament in 1993.

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and so forth. And, on the other, we observe very unpleasant crisis phenomena in world development. They are manifested, first of all, in the fact that it presents no great difficulty today to move hundreds of billions of dollars from one point on the globe to another, in real time. Even with a weak dollar that lacks backing, this defines the possibility for a country which seemed to be growing, to be transformed instantaneously into a bankrupt nation—as starkly shown in the case of the Southeast Asian countries, about which the Prime Minister of Malaysia spoke. There are piles of such examples. South Korea, and others. What is happening?

The main and fundamental thing, from my point of view, is a root cause, which not one Western government, never mind our government, has ever addressed. That root cause, as I believe, is the undecided problem of property: first and foremost, the undecided problem of ownership of the natural-resource potential of our planet.

Here, you come to the flip side of the picture. These financial transfers are so rapid, that assets are given a value in the world, although they have no real economic, material content. To a certain degree our colleagues, Professors LaRouche and Tennenbaum, have spoken about this. To me, however, the problem generally appears more complex. For it is not only that we can say this is a bad system, or that this or that should have been done; it seems to me, that this does not get at the main, fundamental thing, to which the attention of our scientific community, the world community, and our lawmakers should have been drawn. This is what I should like to address.

A Contradiction of Society and Nature

When we talk about the world economy, or the market economy, we ought to recognize that when we speak about the financial crisis, it is only an echo, a distant phenomenon, whereas there is a global contradiction, which is more fundamental, and determining. This is the contradiction between Man, or, to put it more correctly, Society, and Nature.

Look at what is happening in the world. In the last 12 years, there has been a sharp increase in major natural disasters. And it is very much to the point, as shown in the studies of our leading scientists, in particular Academician Osipov, that if we take three groups of countries—low-income coun-

tries, middle-income countries, and the countries of the so-called “Golden Billion”—all of them are forced to spend a large part of their revenues on dealing with the effects of these disasters. Most important is the enormous share of their revenues that the so-called “backward countries” have to spend for this purpose. Those poor countries are spending 20–22% of GDP, on average, to combat these disasters, while the countries of the Golden Billion, which are also subjected to the same natural disasters, with the same enormous consequences, spend proportionally five times less on dealing with them—only 4% of GDP, in the case of the United States.

This process is going on in many domains. Whereas the so-called “backward” countries quite recently had at least some hope of catching up with the countries of the Golden Billion, world development today shows, and this must be emphasized, that this was an illusion, and that the backward countries will now remain backward forever. And if we don’t change our way of doing things—I mean, Russia—then the same fate awaits us, no matter what mechanism we might apply.

In this connection I pose a second question. Is what is happening in Russia, our own national phenomenon? Did we, as follows from the speeches of some of our liberal democrats (a huge article by Mau just appeared on this), accomplish a revolution in the financial sector, which was a boon for the whole country? I answer that question as follows.

No, what occurred in Russia has to do with the United States of America, with Germany, with Europe, with Japan, just as much as it has to do with Russia. Today we are actually experiencing a *global crisis*, and if we are going to talk about finance, this is very correct, but it is only one part, and the real issue has not been discussed through to the end.

The Undecided Problem of Property

The main and fundamental thing, from my point of view, is a root cause, which not one Western government, never mind our government, has ever addressed. That root cause, as I believe, is the undecided problem of property: first and foremost, the undecided problem of ownership of the natural-resource potential of our planet. Not a single country in the world is able to solve these global problems today. The private ownership of what, broadly speaking, was not made by human hands, and is not the result of capital, business, or financial risks, should belong to all.

Look at the classical example, which is, of course, Russia. Of Russia’s total undistributed income, I emphasize that business accounts for no more than 20%. That is, capital, its risks, our banks, and so forth, account for only one-fifth, and even that is an overstatement. Labor’s portion is 5%. But two-thirds of the income has nothing to do with business or labor. This is what stands out so very clearly in Russia. From God, Russia has its natural resources, its territory, its natural gas, oil, and so forth. Are these not material assets, which should be reflected in our financial system?

I pose a third question. On whose balance sheet, today, do we find that which produces two-thirds of the country's national wealth? The answer is obvious: Nobody's! There are declarations, there are words; but are our petroleum companies operating on thin air? Why don't we do the most elementary things? What about an appraisal of our natural wealth, which I am working on? Or is it free of charge? And what about Gazprom, which is 37% state-owned? Are its natural gas deposits, its land allotments, its groups A, B, and C, all free of charge? Whose balance sheet are they on? Nobody's.

But then we arrive at an understanding that the state, as the expression of society, has pulled out of the economy, giving away for free, what resulted from neither business or capital.

Thus, what financial system are we talking about? Here you have another phenomenon, the next consequence, if you will. Suddenly it emerges, that our magnates, as they are now called, have become very active. "Hey, guys, let's reform our currency controls," they say. "Let's get rid of them. Seventy-five percent [mandatory conversion of foreign currency export earnings into rubles] is no good." Why is it no good? "Because we don't know what to do with the money. Four hundred and thirty-eight billion rubles, backed by the foreign currency holdings of the Central Bank. What are we supposed to do?" They've even introduced the unseemly term, "sterilization."

"Make it 50%, or even more, maybe 52%, and we'll put more in our bank accounts and build up bank reserves." The government and the [Central] Bank don't know what to do with this money! There's a pile of money, but it doesn't go into the real sector. Never has there been so much money in the economy.

What is to be done, now? There are no capital markets. How could one be built, if there is no normal lending? The circulation of commercial paper is disrupted. What should we do? And, there follows a weighty pause.

If we are going to talk about the crisis, and we have assembled in this legislative institution, with its lofty calling, we must solve *these* questions. And for me the solution—this is the third part of what I would like to say—is obvious enough.

I consider it very important for Russia, while it still has real capabilities to do so, to act as the initiator of a global resolution of the crisis. But this means that the natural resources, water, airspace, main lines of transport, which are all public property and belong to all, and the rental income, two-thirds of which today is transferred abroad through offshore channels, and so forth, are real and must become a real source for the reorganization of our financial and credit system.

What Is Fundamental

We should think about what is fundamental here. Look at the statistics. Haven't you noticed one crucial fact, which cannot fail to disturb especially our lawmakers? Look at how our oilmen go to the President and say, "We're living poorly."

Really, if we follow their logic, it would be better to shut down our whole oil industry and get oil from the Arab emirates. The oil industry is already at zero-growth, or close to it, although its profitability is very high.

Or, take natural gas. We have 32 or 35 billion cubic meters. But there is no gas in the country. The Turkmen! Now Turkmenistan has to come to the rescue. What is this!? Just look at every other sector. The ruble is getting stronger, that's clear. But everything is sharply deteriorating. Our competitiveness is in decline, the share of imported goods in the economy is rising.

What kind of country is this going to be? The fate of a raw-materials appendage has been determined for us, but in that event, we are all done for.

What kind of country is this going to be? The fate of a raw-materials appendage has been determined for us, but in that event, we are all done for. In that event, it has to be recognized and said, that all of these slogans about social reform, housing and utilities reform, health-care reform, are all just raving. They don't have anything to do with us.

Or, we actually build our economy on a scientific basis. But in that case, there has to be a different system. A different system of banking relations, a different financial and credit system, and so forth. If we look at things this way, then in order to see correctly, we have to do one thing—make our calculations, like the ones we made in the good old days on the basis of so-called optimal management models.

What should we do? Market, no market—that is merely the question of distribution. But what we have to do at the outset, is to determine Russia's net income in world prices. That is what we have to do. And then we shall see a large number of loss-making sectors, and non-competitive products. But at the same time, in 1999 Russia had net revenues of around \$85-100 billion, of which two-thirds, as I said, was rental income. Where is that rent? It was appropriated by 7% of the oligarchs, who manage it and now also give advice to the President, on how it is necessary to eliminate currency controls.

There's your reserve, in plain sight. What do we have to do to get it? We don't need any redistribution, as the President correctly emphasized, but rather just to take a simple action: Put it on the public balance sheet, put it on the books of the state. Say to the state, "Wake up, put all the natural resources on your books!" Then, if today I ("I" being the state) own 5% of some oil company, tomorrow it will be 98%.

Issue shares, into free circulation in a free market! Bring

those possibilities to life! You won't have criminals; you won't need police! Set up the vertical linkage, and everything will flow into the Treasury, which will strengthen our ruble, and industry will develop. This pathway is entirely realistic, and we should think about, and prepare the relevant decisions. Any other way, I simply cannot understand. Thank you.

For Mr. LaRouche's response to Academician Lvov, see p. 56.

Datuk Yahya Baba

Malaysia's Battle With the IMF System

Sergei Glazyev: We have as our guest the Ambassador of Malaysia, Datuk Yahya Baba, who is well known not only as the representative of this friendly country, but also as a prominent scholar, a specialist who has devoted much attention to the financial crisis. I would like to ask him to share his experience, and perhaps to tell us about Malaysia's experience in stabilizing a financial system under conditions of global crisis.

Datuk Yahya Baba: Good morning to everyone. Your excellency, Mr. Glazyev, dear ladies and gentlemen. It is indeed a privilege for me to be here, particularly with world experts on issues, which are alive for all of us. I have indeed benefitted a lot, from listening to the various experts, and the various theories on economic and financial systems. It is a privilege for me to be part of this process, and to share with you some of our own experiences in this field. I am very pleased, indeed, to hear from the experts—particularly, predicting the end of the road for the IMF. And also, the need for a new global financial structure.

For decades, these institutions of Bretton Woods—the IMF, the World Bank—have been giving us advice, and I use the word “advice” very carefully, because normally it is in quotation marks, with lots of meanings, which sometimes we failed to understand. This reminds me of our history in the Fifteenth and Sixteenth Centuries, and from then on, when we began to know other parts of the world—and what advice means. When we started to have economic, cultural, and other relationships, that “advice” also meant political advice.

As I said, that advice did not come very cheaply. We had to pay fairly heavily on that front. In the 1997 financial crisis that hit Asia first, and one year later, unfortunately, spread to this part of the world, for a year or so we listened to the advice,

we followed the advice. In a sense, that advice was: Squeeze your credit facilities, cut off your government financing, including for the lives of the people. Withdraw the subsidies that you have been giving to your people, and bankrupt the companies that have been supporting the economy. And a lot of other advice was given to us.

Dutifully, being good listeners, we followed in this way for a year. And what did we see? We saw—But, I might [first] say, that for a decade the Malaysian economy had been growing at an average of 9 or 10%. Our industries were booming. Our economy was booming. Our shares went up, our money was very much sought after, not only within our country, but all over. We were very proud to see that we could change our money in London, in Paris, in New York, and all the other financial capitals.

But with the advice that we received, the companies could not survive. They just had to submit to the new situation. Their credit-worthiness was gone. They couldn't move. And, therefore, the workers were forced to leave, and the whole country was sick. It was even sicker than before. When the country is sick, it is not only confined to the social, economic, and cultural spheres, but even more so [it affects] the political.

I have been here for six years, now, and I see a somewhat similar situation.

How Malaysia Defended Itself

Don't get me wrong. I'm not against the market economy. I'm not against political pluralism. We, too, commit ourselves to “globalization,” which is the catchword of the day. But, having experienced this for a year, we decided, from the first of September 1998, to introduce selective capital controls, which meant that our money, which was freely traded and freely available the world over, had to be brought back, within a very specific period of four months. [It meant] that our money, from the first of September, would not be legal tender outside of Malaysia.

“Aha! You're inviting a lot of black market [activity], in taking money abroad. Your economy will collapse further—because there are a lot of people, who are ‘tuned in’ to what is best for themselves.”

We fixed our exchange rate at \$1 to 3.8 Malaysian ringgit. I should say that, before the crisis we had 2.5 ringgit to the dollar for a very long time, but during the crisis, the rate went up to 4.8 ringgit to \$1, and your good friend [George] Soros said several times, “We'll see you at 5!” Meaning, they would like to see our ringgit go [to the level of] \$1 for 5 ringgit. We saw the sign on the wall, that we would have to deny him this.

We put it at 1:3.8, and it has remained so for the last two and a half years. This is beneficial for us, beneficial for our friends, for exporters and importers, and beneficial for everybody, including our industry.

The second thing we did, is to call in our shares, which were freely traded in other places, particularly in our neigh-