

EIR Special Report

Russia, the U.S.A., and the global financial crisis

The round table transcribed here, was held in Moscow on April 24. It was sponsored by the Institute for Socio-Political Research (ISPI) of the Russian Academy of Sciences; the Free Economic Society of Russia; and the Schiller Institute for Science and Culture (Moscow).

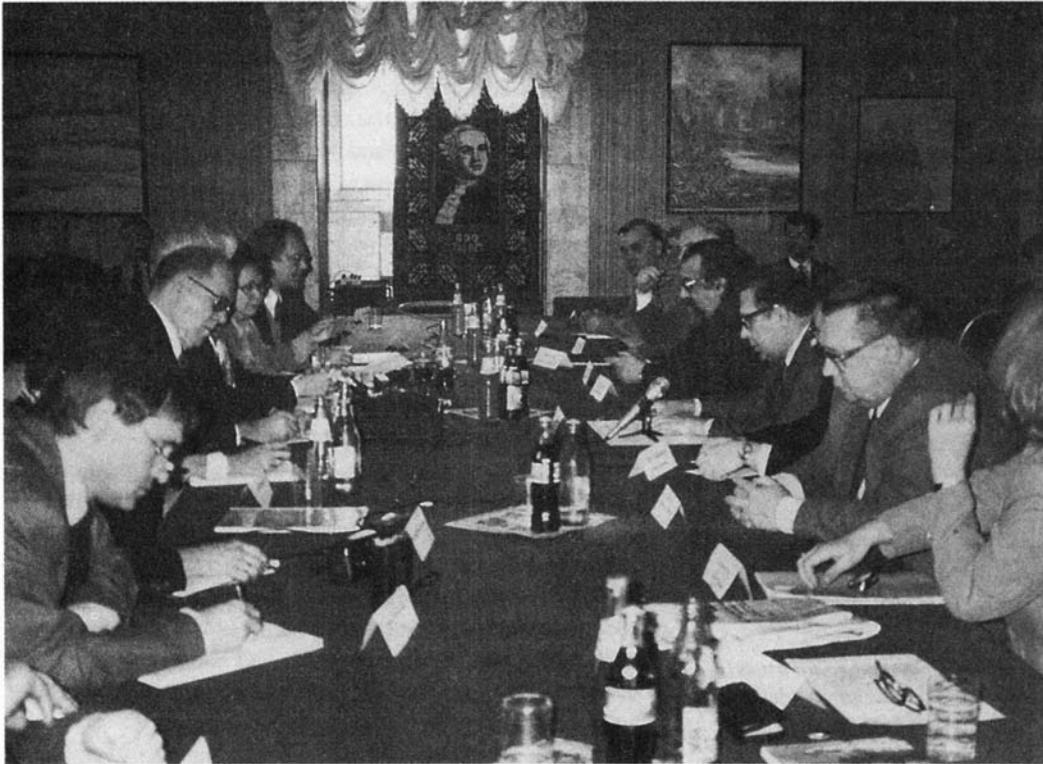
The event was co-chaired by Academician Leonid Abalkin, who heads the Institute of Economics of the Russian Academy of Sciences and is a leader of the Free Economic Society, and Academician Gennadi Osipov, the director of ISPI.

Academician Leonid Abalkin: Ladies and Gentlemen, dear colleagues! For approximately two years now, the Free Economic Society has been holding regular round table meetings in this hall. Our general theme is, "Russia on the eve of the 21st century." We discuss a very broad array of questions here, beginning with such global problems as "Russia's economic security today and tomorrow"; in particular, our society was one of the initiators of putting this problem before the country's leadership. On the basis of this, the Security Council commissioned research on the relevant problems.

We have raised the questions of the development of small businesses, and the fate of smaller, but historically important Russian cities. Besides Russia, we have looked at the world economy today and in the future. I could enumerate many other interesting and important themes, which have been discussed here.

Since we have many guests today, I would like to explain that ours is strictly a public, scientific organization. We cannot adopt binding decisions or resolutions, affecting the course the country will take. Our task is to mobilize the intellectual potential of Russian society, and to draw the attention both of those in power and of the public, to the most acute pending problems for our economic development.

We work in this vein by means of our round tables, as well as through the publication of relevant materials. We publish regular editions of *Scientific Works of the Free Economic Society*, where the papers and other relevant materials from



Lyndon LaRouche (third from left, with shaded glasses) participates in a round table with Russian economists and political figures, at the Free Economic Society in Moscow. The portrait at the rear of the room is of Mikhail Lomonosov, the greatest Russian scientist of the eighteenth century, who died in 1765, the year that the Free Economic Society was founded.

these discussions are included. We have a periodical journal and a newspaper, published jointly with the International Union of Economists, which also extensively cover our discussions, making them available to the public. On the basis of these discussions, we regularly prepare analytical reports and memoranda, which are submitted to the official authorities—the Presidential organizations, the government, and the State Duma.

Our meeting today is of special interest, because we are hosting representatives of the well-known Schiller Institute. The theme which Mr. LaRouche has proposed, on behalf of the institute, is also of great interest to us. The formal title of this theme, as many of you saw from the invitation, is “Russia, the U.S.A., and the Global Financial Crisis.”

Many of us are familiar with Mr. LaRouche’s works and with his original ideas and approaches. I believe that original thoughts always promote exploration, and they are a spur to discussion; although, as a rule, they also do not pretend to contain the absolute truth or absolute judgment on a problem.

We have a fairly good idea of what the financial crisis is *in Russia*, not only from our great and long-suffering history, but also from analysis of the contemporary political-economic situation. But I would not want to give a lecture on this just now; I think that the forms and directions of this crisis may come up in the course of the discussion. As a rule, our discussions take the form of voluntary contributions, a respectful attitude toward the positions of the participants in conference, and a high intellectual level. I hope that our dis-

cussion today will be of this character, and that each of us will find it satisfactory.

I would like for the Russian participants to have at least a brief idea of what the Schiller Institute is, who LaRouche is, and what is his place in contemporary science. Therefore, I shall give the floor first to Professor Muranivsky, who is the representative of the Schiller Institute in Russia. Immediately thereafter, Mr. LaRouche will give a more elaborated presentation.

Prof. Taras Muranivsky: I am pleased to introduce our American guest—a scientist, educator, and political figure—who is in Moscow today. At the present time, Lyndon LaRouche is taking part in the Presidential campaign, from the independent wing of the Democratic Party; in several states of the U.S.A., he is running right behind Clinton, and in some states, where Clinton did not take part in the election, he came in first.

He is well known not only as a politician, but as a major economic scientist. And right now, while in our country we tend to go chasing, sometimes mindlessly, after various Western theories and try to treat them as being of some use for us—sometimes losing all sense of perspective—Lyndon LaRouche, beginning in the late 1940s and early 1950s and continuing right up to the present day, has put forward a precise and clear line.

Of course, in this short presentation I cannot elaborate the basic aspects of the entirety of his scientific views. I would like just to underscore, that to a great extent, these views



Co-chairmen of the round table: Academician Gennadi Osipov (left), director of the Institute for Socio-Political Research of the Russian Academy of Sciences; and Academician Leonid Abalkin, director of the Institute of Economics of the Russian Academy of Sciences and a leader of the Free Economic Society.

coincide neither with the official government posture of the U.S.A., nor with some of the critics of that policy. These are, indeed, original views—whether one agrees with them, or not; original and very fundamental views.

We have attempted to present some of this in Russian, as well. On the table, there are some of the publications. Many people [here] regularly receive the English-language publication *Executive Intelligence Review*, and thus many people here in Russia can make the acquaintance of these views.

My own opinion, is that LaRouche's conceptions and views contain much that is very useful, which we can adopt and utilize today. If economics is truly a science, it is of universal significance. And the views of scientists, regardless of what nation or party they come from, are also of universal significance; and it is incumbent upon us, at the least, to know and to study them. From that standpoint, Lyndon LaRouche is of particular importance for us.

I do not wish to bring up specific concepts right now. I think that we have the happy opportunity to hear them, as they say, in the original. And so, with your permission, I turn the floor over to Lyndon LaRouche.

Abalkin: Thank you for this introduction. And I myself give the floor to Mr. LaRouche, for his lecture. Please begin.

Lyndon LaRouche

We are in the middle of the worst international monetary and financial crisis of the century. The financial crisis has

two dimensions: its severity, and the efforts of many leading institutions in the world, to pretend it doesn't exist. But that is characteristic of every major crisis in history. Leadership consists of not denying the crisis, in the first place.

However, to understand the crisis, I propose that we consider it from the standpoint of approximately 60 years of U.S.-Russian relations. And, I think the importance of my approach in this case, will be clear to you very soon.

The relationship between the United States and Russia, in this cycle, began with the recognition of the Soviet Union by President Roosevelt, during his first term as President. During the period from about 1941 until his death in April of 1945, the relationship between President Roosevelt and Russia was very close. During that period, as you may recall—those of us who are older, especially, as I am—there was a great quarrel between President Roosevelt and Prime Minister Churchill, about the nature of the postwar world. Roosevelt was determined to liquidate the British, French, and Dutch empires. And also, to eliminate British economic methods worldwide, and to use instead, the methods on which the United States had been developed—methods which had been very successful between 1939 and 1943, in mobilizing the United States for war.

For his international policy, President Roosevelt relied upon relations with Russia and China, as the great power relations to guarantee the peaceful development in the post-war period.

At the death of Roosevelt, this changed radically, opening up a long period of conflict between the United States and Russia, under British direction. The form this took was that the Harriman machine in the United States, which was an extension of British international financial interests, took control of Harry Truman, who was a great admirer and faithful follower of Winston Churchill.

Managed conflict, 1945-89

And thus, from that time on, the history of the world until 1989, became a history of the manipulation of the world by a conflict between two great powers—Russia and the United States. This period, until 1989, is divided, for our purposes, especially economic purposes, into two general periods.

The first is the period up until 1962-63. Now, during this period, the conflict was at its most intense, even though there were efforts to set up a kind of globalist society, in the context of that. This came to a head with the so-called Missile Crisis of 1962, out of which came certain agreements which came to be called "détente." Under this period, from 1963 until 1989, the relationship between the two powers was characterized by managed conflict below the threshold of nuclear war.

And then, of course, 1989, 1991 occurred; and a new change occurred.

Now, the driver on the part of the British and their close collaborators in the United States, was as follows. The first



U.S. soldiers in Vietnam, September 1965. "Every night, on television, from the middle of the 1960s on," said Lyndon LaRouche, "you had battlefield pictures of American soldiers being shot to death, chopped to pieces, and so forth, on television. Under these conditions, what was induced in the United States (but not just the United States), was what was called a 'cultural paradigm shift.' "

thing that was done by the British faction in the United States was to collapse the mechanisms of economic growth in the United States, as a result of which, we had a recession from 1946 through 1948—very severe. It produced a politically dangerous demoralization among returning soldiers and their families. But from that point on, through to the present time, the United States has never had net economic growth, except in terms of mobilization for war, or for aerospace ventures. Every period of growth in the United States, since 1945, has depended upon the spillovers of military expenditures, or infrastructure development.

Between 1962 and 1968, there was a great change, which began to occur worldwide; and I shall speak of it, from the standpoint of what happened in the United States, for purposes of today's discussion. As you know in Russia today, very painfully, sometimes political changes produce great cultural shocks. I'll identify five events from the period of 1962 through 1968, which were the circumstances for a fundamental change, in cultural outlook and economic policy of the United States—changes which occurred under the eye of the television set. Mass television broadcasting was already a major factor in social behavior in the United States.

In 1962, during the fateful weeks of the crisis over the Cuba Missiles, the television sets convinced the American population, that the world was on the verge of general thermonuclear war—immediately. This had a great effect, and a great shock, among the American population.

Thirteen months later, the President of the United States

was assassinated. Other assassinations occurred, including those of Martin Luther King and Robert Kennedy, the brother of President Kennedy.

The agreements which had been reached during the 1963 period, led to the unleashing of a great cabinet war, in Indochina. Kennedy had attempted to stop this. But upon his death, McGeorge Bundy convinced President Johnson to proceed with the war. By 1965, McGeorge Bundy was organizing the anti-war movement, against the war he had created. That is, McGeorge Bundy, while in the National Security Council, had organized the war. He then left the government and went to work for the Ford Foundation, where he organized the anti-war movement.

Again—television; every night, on television, from the middle of the 1960s on, you had battlefield pictures of American soldiers being shot to death, chopped to pieces, and so forth, on television.

Under these conditions, what was induced in the United States (but not just the United States), was what was called a "cultural paradigm shift." During this period, there were three basic axioms of cultural change, which have determined the course of the world economy ever since.

Number one, was the introduction of the rock-drug-sex youth counterculture. This followed the precedent of the youth counterculture of Europe, during the 1920s and 1930s, out of which the fascist movements of that period came.

The second, and most important, in terms of economics, was the rejection of the American tradition of improvement

in the productive powers of labor, through investment in scientific and technological progress in production.

At the same time, thirdly, over the period from 1967, with the British sterling crisis of November 1967, through the period of the U.S. dollar crisis of 1971, and the 1972 Azores monetary conference, the stability of the world monetary and trade system broke down. There was a disintegration of the monetary agreements of Bretton Woods, which led to the establishment of the first step toward globalist economy, which was the floating exchange rate monetary system.

I'll just say one more thing about this, in relationship to international political relations. The dynamic of the entire post-Roosevelt period, has been managed conflict, in which the only drive toward economic development, was based on military-strategic requirements. The economic history of the United Kingdom since the eighteenth century, is a parallel precedent for this. As it became clear, beginning with the success of detente negotiations, that the conflict between the Soviet Union and the United States would be limited to conflict below the threshold of general war, two things happened: The collapse of the economy, affected by the military sector, occurred by plan, in the United States and elsewhere; and, beginning 1967, a general collapse of the military-scientific sector of employment, in the United States.

Also, by 1970, the investment in infrastructure maintenance and improvement had fallen to a net zero; that is, the rate of depletion of infrastructure was now as great as the expenditure for maintaining infrastructure.

This cultural change that was part of the economic change, was initially centered in university youth of the middle-late 1960s. These are the people who today are running the United States' private and public institutions, from the top. You will find parallels, of course, throughout the world. And, in fact, this tendency spread from the United States and western Europe throughout most of the world. It spread to other sections of the population, beyond the college and university population.

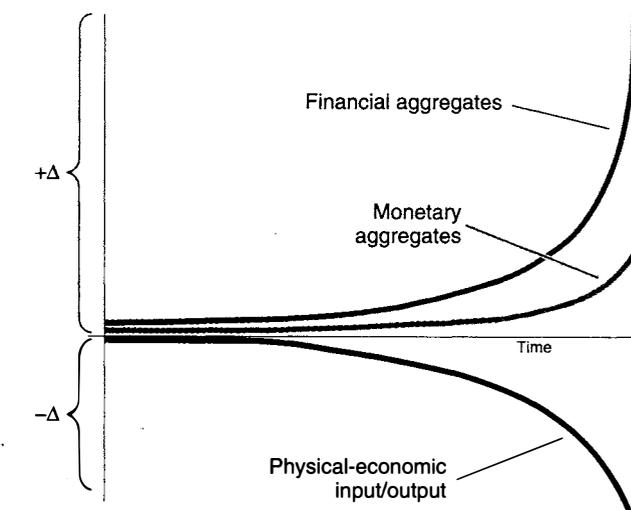
With the result of this political influence, this cultural change, radical changes were made in economic policy and policy of practice.

What I shall refer to now is this curve, which I've used a number of times (**Figure 1**). This is a pedagogical curve, but does correspond, functionally, to what has happened to the world economy, as well as the U.S. economy, over the past 30 years.

There are three parameters that have to be considered. The first, without considering financial or monetary considerations—using no monetary yardsticks for measuring economic performance, but using purely physical measures of productivity and income; because, as you probably know, most monetary figures are fraudulent anyway. The market basket, which I use to measure this, consists of physical output, including infrastructure physical output; plus, three categories of services: education, medical and related care, and

FIGURE 1

A typical collapse function



those other forms of scientific and technological services, which are necessary to keep economic progress. We measure this in respect to not only households, but basic economic infrastructure, also manufacturing and agriculture, and other industrial categories. We measure this in terms of values per capita of labor force, per household, and per square kilometer of land area of relevance.

In those terms, the U.S. economy, since 1970, has been in a net, secular physical economic decline, at rates which exceed 2% per year. For example, if we take a market basket of consumption of productive labor in the second part of the 1960s—to maintain the same physical standard of living. Let's say a steelworker, age 40, with a family, a steelworker who was assisting his children in university education. To replicate that income, would require a U.S. dollar standard of living today of about \$75,000-80,000 per year per person. To produce sufficiently to meet that requirement, would mean doubling employment, at present rates of productivity, in virtually every industry which produced components of this standard of living.

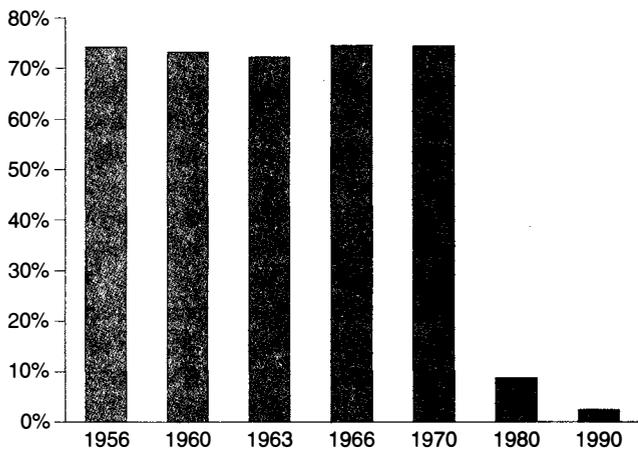
Among the industrialized nations of the world, the general level of economy has collapsed, catastrophically, over the past 25 years.

Now, in the meantime—while we have a declining curve, as Figure 1 shows, in terms of function, of physical output per capita—there has been a decoupling of monetary processes from physical productive policies.

I'll give you just one set of figures from the United States, which illustrates that most dramatically. From 1956 through 1970, of total U.S. foreign exchange turnover per year, 75% was accounted for in merchandise trade: exports and imports. In 1976, this had fallen to 23%. In 1982, this had fallen to 5%. In 1992, to 2%. Recently, it's less than one-half of 1% (**Figure**

FIGURE 2

Mercantile trade as percent of foreign exchange



2). Thus, the circulation of money is no longer related to production or economy in general.

Thirdly, we have, in addition to the monetary inflation, financial inflation. Monetary inflation refers to the money in circulation. Financial inflation, to financial charges which represent claims against monetary circulation of paper.

When you increase monetary circulation, relative to production and trade, another type of debt is created. Currently, the daily turnover on world markets, chiefly in the British financial sector, for pure financial speculation, has reached levels in excess of \$3.5 trillion a day. So you take the ration of financial obligations, which demand payment from an expanding monetary aggregate, then the monetary growth is dependent upon looting an already shrinking per capita physical output. The relationship of monetary growth to physical contraction gives us a virtually hyperbolic rate of growth of monetary growth to that, and therefore a hyperbolic growth of debt.

On the second side, we have the rapid hyperbolic growth of financial speculation, relative to monetary circulation.

Therefore you have a system which is not facing a future crisis, but a system which is presently involved in a *global breakdown crisis*. When you get these kinds of hyperbolic developments in economic processes, you are reaching a discontinuity. And the governments today, I must say, in the face of this, are like the people on the *Titanic*, who no longer had rowboats to escape from it. They're having one last party, before the ship sinks.

This comes right back to what I started from. From the standpoint of the United States, our law and tradition enable us to cope with this problem domestically. The President has the combination of emergency law powers and Constitutional powers, to solve the internal part of this crisis, in the United

States. And, if you look behind the curtain of the election campaign, you will see that, in the Congress—in the Democratic leadership in the Senate and the House of Representatives—preparations are being made for these changes. The President can put the Federal Reserve System into bankruptcy, which has to be done. The Federal Reserve System is a private bank, chartered by federal law. It is bankrupt, as soon as somebody chooses to recognize the figures which prove it. The President can, under the U.S. Constitution, with the consent of Congress, create a new monetary system for the United States. Through the device of emergency legislation, that can be done in 24 hours. A new banking system for the United States, can also be created by emergency legislation, in 24 hours.

But, in an interconnected world, this requires the United States to call together other powers, to set up corresponding international monetary reforms. There are only four world powers on this planet: There's the United States; there's the British Empire (not the United Kingdom—that's a joke; the British Empire), which will be the major opponent of any such change; there is, third, Russia—even despite Russia's condition at present, Russia is a world power, and at least the current President of the United States recognizes that fact; China is also a world power. There are no other world powers.

Therefore, Russia, has a very crucial role to play in this process, which is a political role, more than anything else. The combination of the United States and Russia, now, as in 1945, with the cooperation of China and with the cooperation of other, lesser powers, who require the benefit of the same kind of development—we can change the course of world history, and get out of this economic mess.

Now, the reason this possibly may occur, is because of the so-called force of Reason. None of us have any alternative.

The problem today, is the lack of confidence in a leadership which is willing to act in this direction. To give you an example of what I mean, just, in conclusion, one thing: Between 1939 and 1943, under the leadership of President Roosevelt and under conditions of war, in which we had 17 million Americans in uniform, we took a bankrupt, depression-ridden U.S. economy, and produced the greatest industrial machine on this planet. In the Soviet Union, under conditions of war and invasion and occupation, a similar courageous effort was made. The same methods, principles, the same spirit, done in the name of works of peace, can accomplish the same kind of result, any time we find the leadership and will to do so.

Behind the charade of politics-as-usual, a great number of us in the United States, relatively speaking, are discussing these matters. We don't all agree on all the details, but we continue to move in the direction I've indicated. I'm just a little more aggressive than most of them, as is my disposition.

And, I would suggest, therefore, in conclusion, that the job before us sometimes, of course, comes down to diplomats and elected government officials; but governments cannot act

on ideas, unless those ideas are established in some influential circles. My concern is to broaden and deepen the discussion of precisely this, among intellectual layers, which are influential in shaping the thinking of governments. Because, as you know, when governments and political leaders make decisions, they turn to advisers and say: "Will it work?" And at that point, advisers stake the outcome of their life's reputation on the answer they give, whether "Yes" or "No." And that's my message to you.

Questions to LaRouche

Abalkin: Thank you very much, Mr. LaRouche. I think we have heard a very interesting presentation, which will



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—Lyndon LaRouche

provoke discussion in reply. But, before beginning the presentations of opponents, or other participants in the discussion, perhaps we could have a few short questions. I just have one request to those who intervene: to identify yourself, and to be as concise and precise as possible in formulating your question—not philosophically, but so that the question be understandable, so that the answer may be precise and clear. Academician Senchagov, please.

Vyacheslav Senchagov (director of the Center for Banking and Financial Research, Institute of Economics, Russian Academy of Sciences; Member, Academy of Natural Sciences): Mr. LaRouche, I have listened to your lecture with great interest. I have a question, related to the creation of a new banking system. Could you name, as precisely as possible, the main two or three elements of such a system?

LaRouche: Currency, in a modern state, is created by the debt of the government converted into a monetary form. The

ideal form is the so-called issue by the Treasury of the government of a medium of exchange which can be described as currency notes. The circulation of these currency notes, as credit, through lending mechanisms, banking mechanisms, is then used to expand the economy by selective credit guidelines.

This has been done in the United States' history a number of times. This is our model for it. One, is the Massachusetts Bay Colony in the seventeenth century. It was the first nation—or the first government—to experiment in this, quite successfully. That tradition was continued, through the formation of the U.S. federal Constitution, and led to the formation of the Bank of the United States.

The essential distinction is the difference between *private* banks, which function as central banks on the basis of a charter from governments, and a credit system which is controlled by the government itself. In the United States' experience, it's been a credit system controlled by the government itself which always leads to growth. And, that's the kind of system I'm talking about.

Yelena Viduta (Plekhanov Russian Economic Institute): I have the impression from Mr. LaRouche's presentation, that four countries should get together to find some optimal solution, for changing the course of society's development.

LaRouche: Essentially three; one won't. There are four powers, but three of them will unite.

Viduta: What do you think of this other point of view? Maybe it would be more effective if, say, Russia were to put forward its own conceptualized program, its own policy for economic recovery and development, wherein the main task would have to be how to stimulate productive investment, and to present this to the West as an accomplished fact. Wouldn't that be simpler, than trying to reach agreement beforehand?

LaRouche: I think there would no difficulty, really, if Russia were committed, and if the President were not in an election campaign, that is, the President of the United States. You know, when a President is in an election campaign, he adopts many cats and dogs he kicks out of the house after he's elected.

But, in practice, the President of the United States as you've seen manifest in his efforts, his groping efforts: Unlike Bush, the opposite of Bush, President Clinton has been concerned to find a pathway for partnership with Russia, and also to try to develop the basis for future partnership with China.

The President of the United States understands the Roosevelt tradition, and is part of it; but of the 1960s anti-war generation. He has attempted to use Germany to cooperate with Russia, saying that Germany should be the European partner of the United States and Russia. The President's views are not always shared by his State Department, which is not an entirely unusual affair in government.

But if, from the side of Russia, there were a clear indication of *desire* to do what you say, that would make for a very interesting discussion between the Presidents of the United

States and the Russian state, saying, "Can't we do it together?" And you would find, with Clinton, I think, difficulties, but an open door.

Abalkin: Thank you. I shall ask a question, if I may. In Clinton's most recent message to Congress, he set the task of completely eliminating the budget deficit within seven years, by the year 2002, and he proposed a concrete program of measures for this purpose. My question is, whether you consider this program realistic, and is it related to the program for reorganizing the financial system, which you are talking about?

LaRouche: It has a relationship to an old Russian story, about the troika being chased by wolves. I'll summarize, because I think the question is typical of many questions that could be asked in the same direction.

Things are not always what they seem, especially not what the press says they seem.

The President, as is well known, has a bitter enemy in the British monarchy. After 1994, the friends of the British monarchy, which are called the neo-conservatives, or the "Gingrich types" in the United States, took over the Congress. These are all associated with an English society which you, Mr. Abalkin, may know: the Mont Pelerin Society of the late Friedrich von Hayek. These are very dangerous people, politically.

The President is a pragmatist. He was willing to throw a baby out of the carriage, out of the troika, to the wolves, until he could get through the next election. You probably are familiar with our American pragmatic standard. You will also agree that many people, including myself, who have been close to the President, may be running on a somewhat different track during this period than he is during his election campaign. Once he's reelected, and on condition we take over the House of Representatives again, it will be a completely different story.

Abalkin: As for babies who are tossed out of the troika on election eve, this is something we in Russia can understand very well. In this regard, I believe, we are very similar to the Americans. Or, perhaps politicians are always like that.

Valentin Pavlov (former prime minister and former finance minister of the U.S.S.R.): My question is a simple one. To what extent are your concerns connected with the formation of the ECU system and the strengthening of the [German] mark?

LaRouche: The ECU system, when it was first started by Chancellor Schmidt and President Giscard d'Estaing, in 1978—I defended it at that time, because we had a lunatic as President of the United States, by the name of Jimmy Carter, and it was necessary to bring some kind of credit stability into Europe to prevent political and other disasters.

Recently, the same system has been used, since a British agent was President of France, called François Mitterrand, who, remember, rammed through an agreement, under British direction, called Maastricht. And, this was to prevent the kind

of policy coming out of Germany, which you probably know of in terms of the proposals of former Deutsche Bank leader Alfred Herrhausen, to extend credits.

I am opposed to what is happening now, as I am opposed to the extension of NATO to the borders of Russia and its Near Abroad neighbors. I'm opposed to the dissolution of the principle of national sovereignty, and the replacement of national sovereignty, as a system, by regional and international, supranational government.

Abalkin: Thank you. Let this be the last question.

Representative of the International Slavonic Academy: I follow your work with great interest. I find that an important, convincing aspect is the effective combination of your own economic approach, with geopolitical considerations. I am particularly struck by your saying that united efforts by the chief world powers are necessary for the reshaping of monetary and economic policy. At the same time, it is important to see that the leaders of the world powers—the United States, as you have discussed, and we could say the same for Russia—are limited by a number of important factors. You cited, for example, the electoral campaign; or, even the actions of the secretary of state—these are limitations. My question is the following: Is it sufficient to have agreement among some three or four world powers, in order to implement the rational course you are talking about, or is the main thing the position of those centers of transnational capital, which, in practice, created this financial crisis?

LaRouche: Simply, we have been under the rule of Great Power systems since the end of the war. The problem is, the smaller nations of the world, among which one must ironically include India, have no power to resist these international authorities. Only a majority combination among great powers, can break the power of these international authorities. Therefore, not in order to create another global hegemonic system, but to create a world which is safe for sovereign nation-states.

We're in a great struggle. We're in a great, strategic world-historical struggle. And therefore, as in war, the unity of great powers can be decisive in whether you win the war or lose it, as Roosevelt understood before he died.

Abalkin: Thank you. We shall now move on to the discussion. I have here the names of several people, who have already indicated their wish to speak today. First, I give the floor to Ivan Korolyov.

Ivan Korolyov

Mr. Korolyov is a professor, deputy director of the Institute for the World Economy and International Relations (IMEMO) of the Russian Academy of Sciences.

Thank you very much, Leonid Ivanovich. I shall try to be brief, so that there will be time left for discussion.

You know, we have such a situation in Russia, that when we look at the world situation, it looks good, compared with what is happening here. I agree with Mr. LaRouche, that, indeed, the expansion of private capital flows, in particular, creates a potential danger. If we look at the crises that did take place in the West since 1987, we see that there were just two or three crises on the stock markets; a slight problem with the British pound in 1992; problems that year with the European Monetary System—also, not very serious, in my view; the collapse of one major British bank and one large American investment house. As the saying goes: If only we had *your* problems!



The main task is to create the possibilities for initiative, to create work for millions of people—the very problem, which we were seeking to solve for decades, during the existence of the Soviet Union.

—Ivan Korolyov

But at the same time, strange as it may seem, there is a parallel between the global financial situation, and the situation in Russia. And that is located in the insufficiently effective level of state intervention in economic processes. There are, however, different causes for the ineffectiveness of state intervention, internationally and in Russia. In the economy of the West, we are now at the peak of the relative development of *market* forces, as opposed to state intervention, in the entire postwar period; in my view the situation in Russia, however, is different.

Russia's unique situation

A unique situation has come about in Russia, where, on the one hand, state policy is insufficiently effective, but, on the other hand, the possibilities for normal, honest enterprise are even less than they were in 1992. Real market freedom exists only for certain large monopolies, such as Gazprom or Lukoil, which are able to act as they wish, even in contradiction to the political interests of the state. Therefore, strange as it may seem, the essential problem for Russia is rather different than for the economy in the West: The main task is

to create the possibilities for initiative, to create work for thousands and millions of people, and for ordinary enterprises—the very problem, which we were seeking to solve for decades, during the existence of the Soviet Union. This is the basic problem; because, if you compare Russian society and the Russian economy—it's absolutely different, from normal Western society.

In conclusion, I would like to comment on one question, namely the possibility of reshaping the world financial system, with Russia's participation. As far as I know, the existing projects for changing the world financial system are rather modest and comprise three elements. The three questions are: establishing currency fluctuation bands, target zones, instead of free floating; expansion of the IMF's issuance of Special Drawing Rights; and, increased coordination of monetary policy among IMF members. These are rather modest goals, compared with what Mr. LaRouche is talking about.

If, then, we take the question of what interest Russia has in participating in the restructuring of the international monetary system: Strange as it may seem, our possibilities for doing so are rather less than they were in 1944. As you know, in 1944, Russian specialists occupied an important place at Bretton Woods and often played a key role in resolving conflicts between Mr. [Harry Dexter] White and Mr. [John Maynard] Keynes. At that time, the Soviet Union was *not* included into the international system as Russia is today.

Today, we are the biggest debtor in the world, as well as the biggest creditor. We now have a convertible currency, and free access for our firms to international markets. In my view, although I think that some of those present will oppose what I say, we should concentrate on our Russian problems, rather than get into world politics. I think that for many Russian citizens, who—unlike me—are not very well off, it is unnerving to hear constant assertions, that Russia is a great power. The standard of living of the majority of Russians, especially in the smaller cities and most of the rural areas of central and northern Russia, does not permit us to declare that Russia is a great power. And thus, I think that we must concentrate on our own problems, while doing what we can at the international level, for the stability of the international financial system.

In conclusion, I would make one remark about any fundamental reshaping of the international financial system. I am afraid that, as a matter of principle, it may be an illusion, to think that it is possible to pose this task of reshaping the international system. Let us remember the Bretton Woods conference. In everything its participants did, they tried—by means of international agreements—to reestablish the monetary order, which had existed before the crisis of the 1930s. That's all! And the currency fluctuation limits they established were nothing but the old gold points that had existed before the war. I am a pragmatist, and I'm afraid that any politician will always achieve the maximum, if he simply sums up the already existing experience, and tries to imple-

ment it in a normal fashion. Unfortunately, we have had many people in Russia since the beginning of this century who tried to restructure the entire situation on a worldwide basis. Perhaps that is why I am skeptical about such plans. But I would like to say that, on the whole, in political terms, your statement, from my point of view, was very interesting and important. Thank you.

Abalkin: I have here a preliminary list of people who wish to speak. Others who would like to speak, please write me a note. I am a great advocate of the kind of modesty, which Mr. Korolyov exhibited during his intervention. Now, I give the floor to Mrs. Marivilia Carrasco.

Marivilia Carrasco

Marivilia Carrasco is president in Mexico of the Ibero-American Solidarity Movement, founded in 1992. The portions of her written speech that were not delivered orally appear in brackets.

Dear Friends! I am honored to participate in this seminar, with the hope of building bridges among us, the representatives of various nations of the world, in order to bring about a global solution to the current world crisis which threatens the very existence of civilization.

I know that my country, Mexico, was held up as an example by the International Monetary Fund and by idiots such as Jeffrey Sachs, during the period of ex-President Carlos Salinas de Gortari, of what Russia and other nations should do in order to "insert themselves in the global economy." [For those who believed this fairy tale, they should beware the fate of ex-President Salinas and look at what he is up to now: traveling around the world just one step ahead of the law, trying to avoid the ongoing investigations of various governments about his alleged ties to dirty money laundering, a virtual exile from Mexico. From Havana, Cuba to the Bahamas, protected by the mafia which brought him to power and kept him there for six years: George Bush and his friend Fidel Castro.]

So, after the monetary and financial explosion of Dec. 20, 1994, I trust that you are convinced that the "Mexican model" is not the path to be followed. [And if that is not the case, I hope to be able to convince you today, because there are still a few pro-Salinas lunatics hanging around, in London, in the IMF, or in the U.S. State Department, who insist that it was all a local administrative "mistake," an error regarding when and how to devalue the peso. That is false, from top to bottom.]

The first explosion of the Mexican debt bomb occurred in 1982. In September 1982, Mexican President José López Portillo nationalized the central bank, declared a moratorium on the foreign debt, and tried to create a debtors' club among the countries of Ibero-America. [The debt crisis back then was the direct result of the policies of the chairman of the

United States Federal Reserve, Paul Volcker, of sharply raising interest rates.

At that time, an anti-imperialist spirit reigned in Ibero-America. This was the result, not of Fidel Castro, but of the effort of Argentine patriots in April of 1982 to assert their sovereignty over the Malvinas Islands, which the British call the Falklands, and which were illegally occupied by the British Empire since the beginning of the nineteenth century].

Lyndon LaRouche, who met with Mexican President López Portillo in 1982, at that time urged the governments of



Ibero-America has been subjected to the most criminal, Nazi policies of looting of its physical economy and of its labor force, under the supervision of the IMF. We went from being nations to becoming, quite literally, enormous concentration camps.

—Marivilia Carrasco

Ibero-America to respond to the British aggression with "the debt bomb," an expression which LaRouche coined, in his famous study "Operation Juárez," published in August of 1982.

LaRouche proposed the formation of a bloc of debtor nations to act with iron unity, and thereby force the international financial oligarchy, the creditors, to negotiate a just new world economic order, [by threatening to bankrupt them by jointly suspending payment on the foreign debt, a powerful weapon indeed at that time.]

Ibero-America failed to unite, and that historical opportunity was lost.

LaRouche's warning back then, is today more valid than ever. President López Portillo adopted it and posed it in the following terms in a speech before the United Nations in October 1982: "Either a new world economic order is accepted, or civilization will sink into a new medieval Dark Age with no hope of a Renaissance."

[One day before the Mexican President's speech, the U.S. secretary of state at the time, George Shultz, had said of Mex-

ico and Ibero-America: "Economic reforms must be carried out . . . and you must put an end to protectionism. . . . In this regard, the IMF can provide critical help and guidance."

Note well his use of the term "protectionism"—not "socialism," "statism," or "communism." Protectionism, which is a tradition in economics in Ibero-America going back to the influence of the American System of Alexander Hamilton and even before, to the influence of French protectionism in Spain.]

Since the early 1980s, Ibero-America has been subjected to the most criminal, Nazi policies of looting of its physical economy and of its labor force, in order to pay the foreign debt, under the supervision of the IMF. We went from being nations, or aspiring to be nations, to becoming, quite literally, enormous concentration camps.

The magic of 'bankers' arithmetic'

That looting is based on the classical IMF swindle of supposed restructurings of the foreign debt, which are in fact refinancing of old debts premised on the imposition of radical free trade measures such as GATT and NAFTA; brutal currency devaluations; freezing of wages and prices; freeing of interest rates; deregulation of the economy; privatization of state-sector companies (that is, cheap, bargain sell-offs, through the scheme of swapping debt for equity); deregulation of foreign investment; and so on. All of this is done with a single purpose in mind: to guarantee the payment of the foreign debt, while making sure that not a single cent is invested in the real economy.

[From 1983 until the present, but especially over the last six years, Mexico has auctioned off the majority of its 700 state sector companies, some of which were among the largest of Ibero-America—including the telephone company Telmex, the fertilizer company Fertimex, various steel plants, chunks of the oil industry, and so on. During this period, Mexico paid, punctually, an average of \$14 billion per year. And yet, the foreign debt increased, rather than diminishing.]

As can be seen in **Figure 1**, in 1980, Mexico's official foreign debt was \$57 billion. Over the next 15 years, from 1980 to 1995, Mexico paid about \$131 billion in cumulative interest payments alone; but by then it owed \$159 billion. Yes, that's right: $\$57 - \$131 = \$159$! That's what we call "bankers' arithmetic." It is pure usury!

For Ibero-America as a whole (**Figure 2**), the situation is very similar. In 1980 Ibero-America owed \$257 billion. Over the next 15 years, it paid \$448 billion, but ended up in 1995 owing \$607 billion. $\$259 - \$448 = \$607$. How do you like that?

As you can see, Europe and Central Asia—including Russia—have also been victims of "bankers' arithmetic" (**Figure 3**). Here, the total foreign debt was \$88 billion in 1980; over the next 15 years, \$196 billion was paid in cumulative interest payments; and yet, at the end of this period, the debt had grown more than fourfold, to \$378 billion.

Figure 4 shows the looting of the physical economy of

FIGURE 1
Mexico: debt and interest paid
(billions \$)

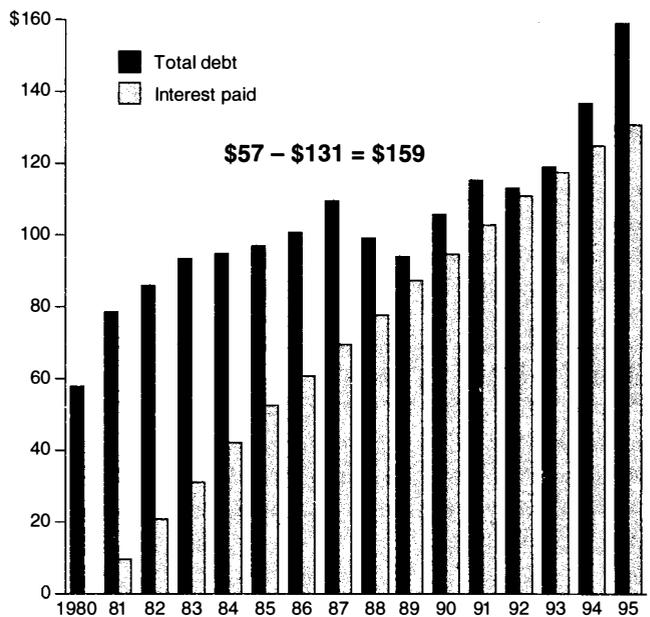
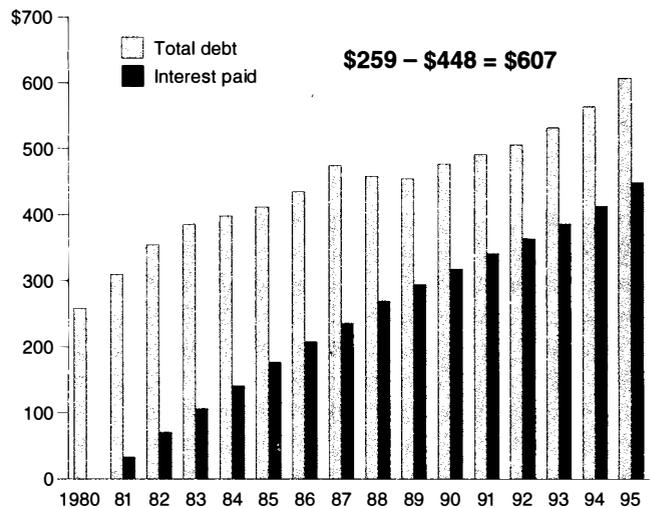


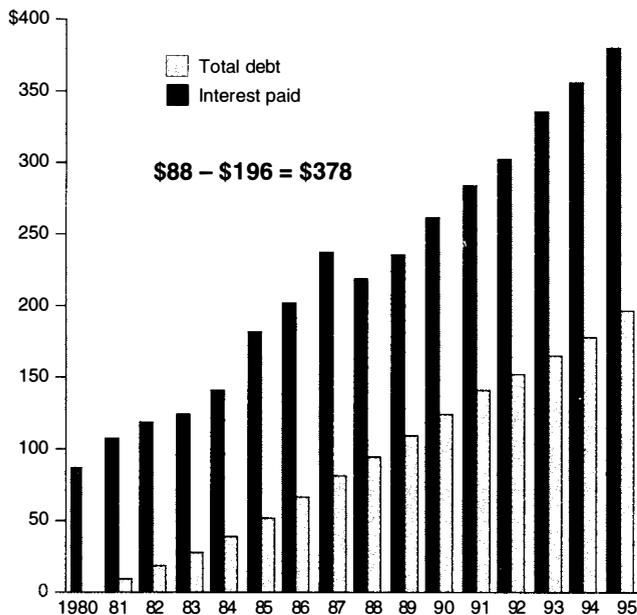
FIGURE 2
Ibero-America: debt and interest paid
(billions \$)



Mexico, as reflected in its balance of trade. From 1976 to 1981, under López Portillo, Mexico ran a healthy trade deficit, because national policy was oriented towards importing capital goods, which in turn generated productive jobs. Starting in 1982, when the debt bomb exploded, the IMF imposed conditionalities on Mexico which created a trade surplus (a

FIGURE 3
Europe and Central Asia: debt and interest paid

(billions \$)



drastic reduction of productive imports, and an increase in exports), by reducing internal consumption, freezing wages, and increasing unemployment, all in order to pay the foreign debt.

Abalkin: Excuse me, but I asked the speakers to show restraint. If you have written material, it will be possible for people to consult the published proceedings of the round table, where it can be included in the record and the publications; but we have a large number of people wishing to speak, so I would ask for limitation of the speaking time. Although this is very interesting for me.

Carrasco: Very good. I just want to show the next slide (Figure 5), where you can see that [as a result of these policies] the whole [foreign] debt of Mexico debt grew by 234% over this period, while physical-economic output collapsed by 2%, in the case of cement, to 27%, in the case of steel.

Financial, economic policies decoupled

I basically wanted to show you some of these details, first of all because Mexico is a very good example of what will happen in many other economies; secondly, because we have reached an extreme situation, in which all these policies have created a situation which is already *recognized by the government of Mexico as a starvation situation*, for a big portion of the population.

[In 1987, this looting model led to a crisis—the agricultural, industrial, highway, and energy infrastructure was destroyed through lack of investment—and, in its place, the

FIGURE 4
Mexico: balance of trade

(billions \$)

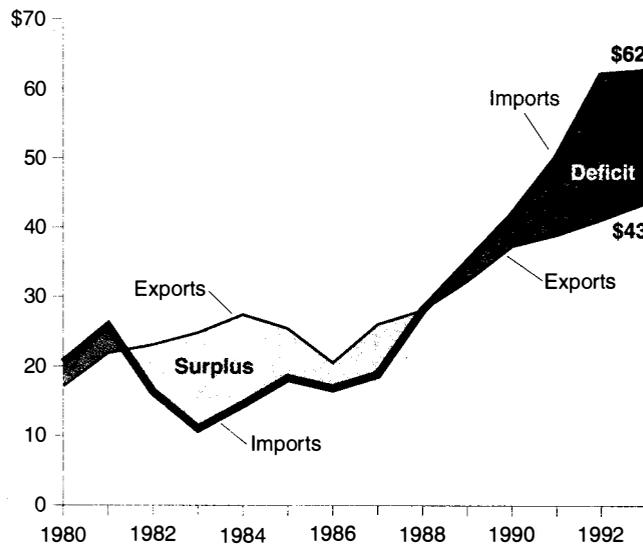
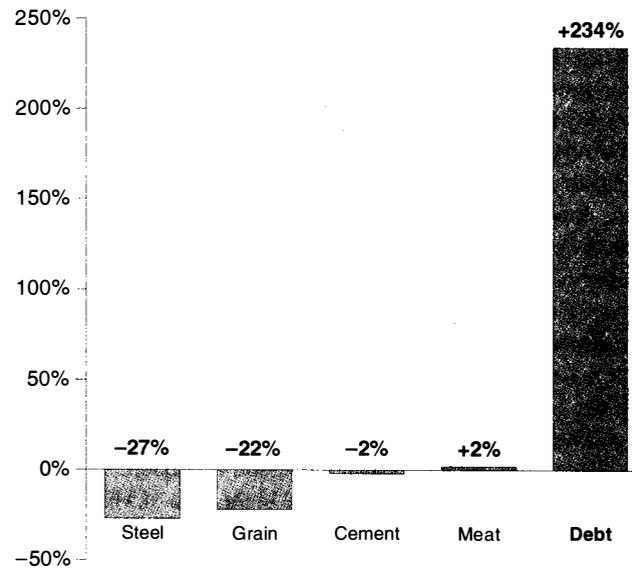


FIGURE 5
Mexico: growth of foreign debt versus production, 1981-93

(percent change)



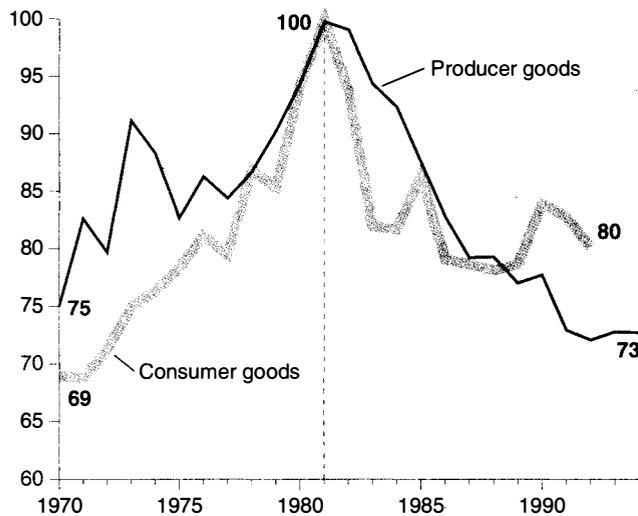
Sources: World Bank, ECLAC (United Nations), INEGI (Mexico).

IMF imposed a policy of massive, indiscriminate imports by eliminating all trade barriers. This total free trade policy led to the final annihilation of the nation's productive agricultural and industrial sectors.

FIGURE 6

Mexico: producer and consumer goods

(index 1981=100)



Sources: ECLAC (United Nations), INEGI (Mexico).

Figure 6 shows the collapse of the per-capita production of consumer goods, and of producer goods, measured in physical terms, by 20 and 27% respectively, from 1982 until the present.

Perhaps the greatest crime in Mexico was the destruction of national agricultural output (**Figure 7**). While the non-performing debt of farmers grew exponentially, the euphemism of “comparative advantage,” was used to tell us that we should import cheaply that which was produced internally at greater cost. Thus, Mexico allowed foreign grain, meat, milk, etc. to enter the country, and the country was made totally food-dependent, at exactly the moment that the grain cartels monopolized ever larger shares of the world market of scarce food. Here you can see the collapse of Mexican grain production, and even though increasing amounts are being imported, there has been an almost 30% drop in per capita consumption in the country since 1981.

The decoupling of financial manipulations from the physical economic process, which Lyndon LaRouche has identified on a world scale, is illustrated in the case of Mexico, both in its internal as well as its external financial processes.

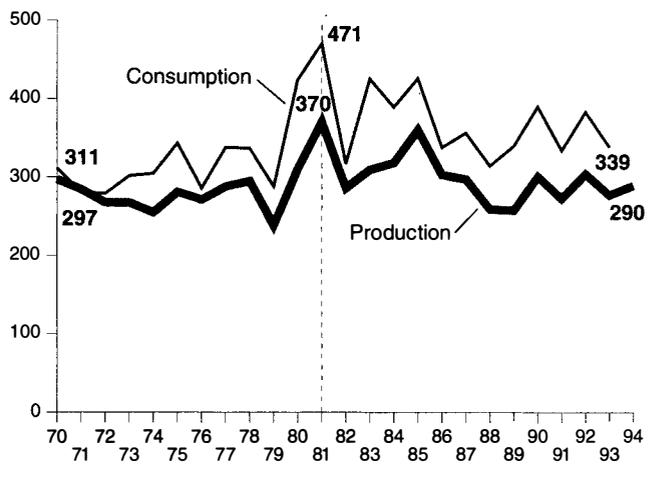
1994: The speculative bubble popped

What collapsed in December 1994 was the speculative bubble that was created under the administration of Carlos Salinas de Gortari, from 1988 to 1994. The growth of the trade deficit led to an unprecedented current account deficit of \$28.5 billion, which was financed with so-called hot money, speculative capital from pirates such as George Soros, 80% of which was placed, not in the physical economy, but in the

FIGURE 7

Mexico: grain consumption and production

(kilograms per capita)



stock market and in government bonds such as the CETES and the infamous Tesobonos. That is what collapsed in 1994.

That bubble was public debt. The CETES and Tesobonos, which were issued as supposedly internal debt, were in fact disguised foreign obligations, since about 80% of it was denominated in dollars and held by foreigners. What the Salinas government tried to hide, is that Mexico’s real foreign debt was much, much larger than what was officially admitted.

After the collapse of December 1994, there was a growing movement for a debt moratorium and for Lyndon LaRouche’s proposal for a new international monetary system. But instead of that, the IMF promoted a \$50 billion package to avoid the disintegration of the international banking system. On the IMF’s strict orders, not one dollar of this package was invested in the reactivation of the Mexican economy.

In 1995, Mexico paid \$47.3 billion in debt service of the foreign public debt, of which, \$41.4 billion, or 86.7%, were spent to cover earlier bond issues (including \$30 billion of Tesobonos), and \$6 billion went to interest and amortization payments on the foreign private debt. Those \$53 billion paid in 1995 were equal to 40% of the total official foreign debt of Mexico at the end of 1994.

Nonetheless, by December 1995 the official foreign debt of Mexico had grown from \$136.5 billion a year earlier, to \$159.1 billion—a rise of 17% in only 12 months.

One result of all of this is that the Mexican banking system is hopelessly bankrupt. The country’s financial authorities admit that 17% of the total loan portfolio held by the banks is non-performing, which means that payments are not being made on about \$15 billion in loans. For certain banks, the non-performing loans are as much as 23% of the total. In 1995, in a useless effort to bail out the banks, about \$16 billion

was poured into this sinkhole. The so-called Agreement to Help Debtors, known by its Spanish acronym ADE, in late 1995 restructured a portion of the internal debt, but already it is reported that between 25 and 47% of the restructured loans have again fallen into non-performing status.

We are today living—or rather dying—with a policy of unprecedented looting, which has brought my country to the brink of national disintegration.

The shock therapy which accompanied the IMF package produced, in 1995, a drop in GNP of an additional 7 to 10%. Between 2 and 3 million Mexicans became newly unemployed. The area under cultivation plummeted by 20%; public investment in the agricultural sector sank by 30%; and credit to the agriculture sector fell by a devastating 36%.

At the end of the first quarter of 1996, Finance Minister Guillermo Ortiz admitted that GNP had dropped another 3%.

The country is undergoing a true phase-change toward starvation.]

I would like to give you an example: the last financial package of \$50 billion, which was given to Mexico after the December 1994 crisis. This is a very good example of the decoupling of the financial process from the real economy. Because I want you to keep in mind that of the \$50 billion which was given to Mexico, Mexico never received anything; it was signed, in the Letter of Intent of the IMF, that Mexico could not use one single dollar out of this \$50 billion, to invest in the real economy. And it is a known fact, that Mexico used all this money to pay the debt; just in 12 months, Mexico paid \$53 billion, accompanied by a total catastrophe for the physical economy.

I just would like to show you the last slide, with the map of Mexico (**Map 1**). You can see the gray areas, which are recognized as areas under starvation conditions. This was recognized by the government in 1995, while the worst drought was hitting Mexico in the past 100 years. This had a great impact on the capacity of Mexico to produce food.

[Already in early 1995, the government had recognized the existence of 16 areas of chronic hunger in the country. Then the worst drought this century hit the farming areas, worsening the IMF's shock therapy. More than half of Mexico's 95 million people have sunk below the official poverty line. Half of the workforce, that is, about 19 million working-age Mexicans, are unemployed. Some of them survive with different kinds of underemployment; many million of them try to emigrate illegally across the northern border to the United States, from where thousands of illegal migrant workers are deported daily.

But the madness does not stop here.

After the IMF's Mexican model exploded, the new magic words are "domestic savings"—and the model being held up is Chile and its privatized pension system. The Mexican Congress has just approved a similar law. Yet Chile is another example of the world financial disintegration, as **Figure 8** shows: The foreign debt has grown exponentially, while the

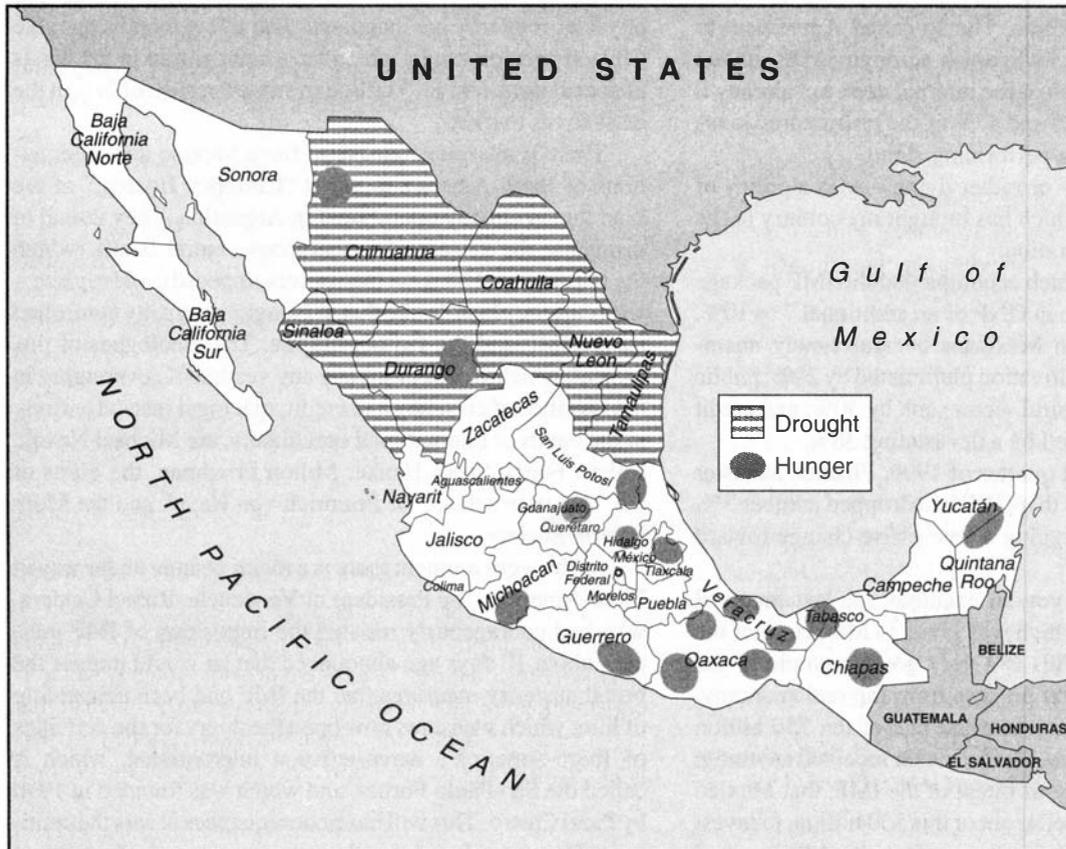
physical economy has stagnated. Just a few months ago, the Chilean pension funds, which have been placed in the hands of speculators, lost \$1.5 billion in value because of bets in the derivatives markets.

There is also an offensive to force Mexico and other nations of Ibero-America to adopt "Currency Boards," of the kind that is already operational in Argentina. They intend to dismantle the system of autonomous central banks (which the international bankers themselves imposed), and replace it with currency boards like that of Hongkong, totally controlled by the IMF and the British Empire. The ideologues of this project, which would eliminate any vestige of sovereignty in the issuance of currency and credit, placing it instead entirely in the hands of international speculators, are Michael Novak, Robert Fogel, Steve Hanke, Milton Friedman, the gurus of the "Austrian school" of Friedrich von Hayek and the Mont Pelerin Society.

At this very moment there is a major change under way in Ibero-America. The President of Venezuela, Rafael Caldera, who had courageously resisted the imposition of IMF policies, about 10 days ago announced that he would impose the brutal austerity measures that the IMF had been demanding of him, which measures now open the doors for the activities of Ibero-America's narco-terrorist international, which is called the São Paulo Forum, and which was founded in 1990 by Fidel Castro. This will have consequences across the continent. The groundwork for this new continental offensive of the São Paulo Forum is already being laid, as can be seen in the deployment of ideologues of narco-terrorism such as Régis Debray; leaders of the non-governmental organizations, or NGOs, controlled by the United Nations, such as Danielle Mitterrand (the widow of François Mitterrand); and Hollywood figures such as Oliver Stone, in the jungles of Chiapas, Mexico, where they have gone to meet and plan strategy with the synthetic, hooded guerrilla leader, Marcos.

'There is life after the death of the IMF'

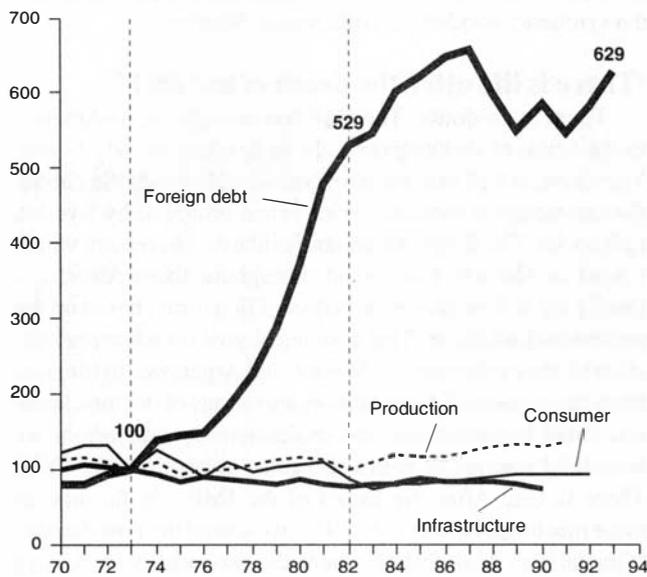
There is no doubt. The IMF has brought Ibero-America to the brink of disintegration. In fact, it has already begun. Very soon, it will become irreversible, unless we bring about the international monetary conference proposed by Lyndon LaRouche. The Ibero-American Solidarity Movement which I head in Mexico, has spread throughout Ibero-America a Draft Law to Reactivate the National Economy, based on the policies of LaRouche. That draft legislation is under consideration by the parliaments of Mexico and Argentina. In Mexico, it has the support of numerous organizations of debtors, farmers, small businessmen, and professionals, with whom we have held a series of national forums under the title: "Yes, There Is Life After the Death of the IMF." In the first of these meetings, held in June 1995, we issued the now-famous "Guadalajara Manifesto," where the proposal is made, and which I here extend to all of those present today, to try the International Monetary Fund for crimes against humanity.]



MAP 1
Hunger spreads as Mexico is hit by 100-year drought

FIGURE 8
Chile: debt versus physical economy

(indices 1973=100)



Sources: World Bank, ECLA, Central Bank of Chile.

The reason I was very happy to be with you today, and to be part of the delegation together with Lyndon LaRouche, is that I'm totally convinced that either the policies he has been proposing for the last 25 years are implemented, or nations like Mexico, Brazil, Argentina, many others in Africa, will not have any chance, any future. I will tell you that the political situation in these countries is bordering on disintegration.

I thank you very much.

Abalkin: Thank you. I give the floor to Mr. Lothar Komp, while Mr. Senchagov prepares to go next.

Lothar Komp

Mr. Komp is a member of the EIR European Economics staff. His remarks were a condensation of a longer, published report, "Germany's Physical Economy in Worst Crisis since World War II," part of which appeared in EIR's Sept. 29, 1995 issue.

Ladies and Gentlemen, I have prepared for you a very condensed review on the post-1982 decay of the German economy, once the leading exporter of high-technology capital goods in the world. So, for time reasons, I will now give you an even more condensed summary of it.

All the German economic successes, since early in the nineteenth century, were built upon the shoulders of the Classical period of Schiller, Beethoven, Wilhelm von Humboldt, and the scientific circles around Alexander von Humboldt and Carl Friedrich Gauss. In this cultural climate, Friederich List pushed forward the development of a nationwide railway system, and in the 1880s and 1890s, there were huge state investments into housing construction, sanitation, and all forms of social health infrastructure, including the introduction of the world's first nationwide, mandatory social security system.



Under the rule of globalization and the disintegrating financial system, Germany's economic

successes are being overthrown. Public infrastructure investments are being drastically cut, while the social and health systems are under massive attack.—Lothar Komp.

Today, under the rule of globalization and the disintegrating financial system, all these roots are neglected and overthrown. Public infrastructure investments are being drastically cut. The German social and health systems, still among the best in the world, are under massive attack. The German banking sector has undergone a transformation towards short-term, speculative profit, which can be seen, in particular, in the case of Deutsche Bank after the murder of Alfred Herrhausen. The new Deutsche Bank chairman, Hilmar Kopper, describes this as a cultural revolution and the establishment of an Anglo-Saxon banking and management culture. The Humboldt education system was finally removed during the 1970s, and the more radical streamlining of education is in preparation. This has already turned large parts of the younger generation into irrational people, who perceive any type of technological progress as their enemy number one.

Now, what are the consequences? I will show you some slides.

In only four years, about 3 million industrial jobs were cancelled in the German economy (**Figure 1**). After the rejection of the LaRouche program of the Productive Triangle, eastern Germany was transformed from an industrialized

country into a developing country, which is no longer able to produce what it consumes. Eastern German consumption of goods and services is about DM 470 billion per year, and DM 210 out of this have to be imported, mainly from western Germany. If you take the eastern German economy as one economy, it has one of the biggest trade deficits in the world, comparable to that of the United States, which has, of course, a population 15 times higher. If you compare what is left over from industrial production with the requirements of the Morgenthau Plan, you see a lot of similarities. What has happened here is one of the fastest deindustrialization processes in peacetime, ever. Eastern Germany has about 20% of the German population, and its share in the German export is 1.7%; 98.3% of German exports come out of western Germany.

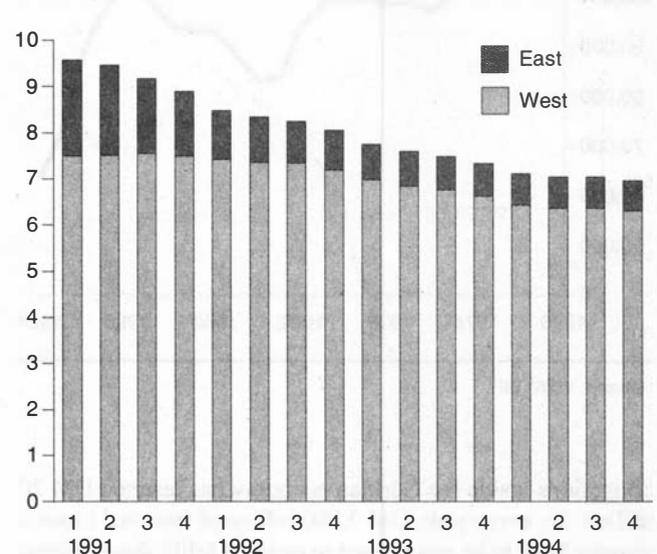
All the western German high-tech sectors are in an existential crisis, where, here in the case of the aerospace industry, you can see that, in the 1990s, about 40% of all jobs were cancelled (**Figure 2**).

Here, the same in machine tools: 40% of the jobs wiped out, in only five years (**Figure 3**).

It is similar in the chemicals industry (**Figure 4**). This obviously resulted in a huge wave of bankruptcies, which is only the beginning; everybody expects this to be much higher in the years 1996 and 1997. And, the unemployment in Germany has already reached new, record highs for the postwar period.

So now, very briefly, some financial aspects. The interest rate payments are now becoming one of the primary activities of the German economy. The total volume of mutual financial

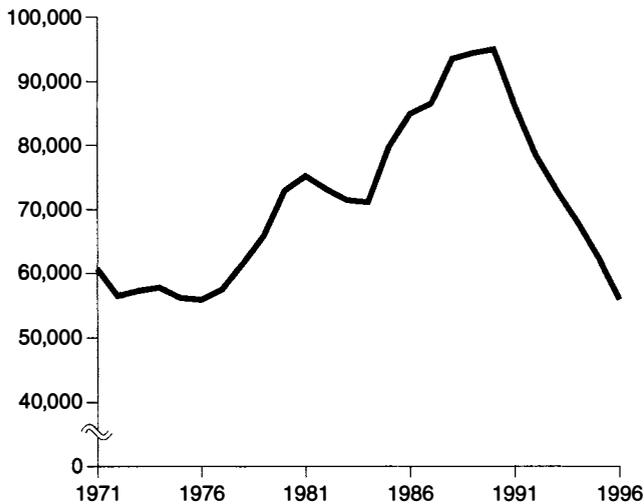
FIGURE 1
Industrial jobs in Germany
(millions)



Sources: German Federal Statistical Office; EIR.

FIGURE 2

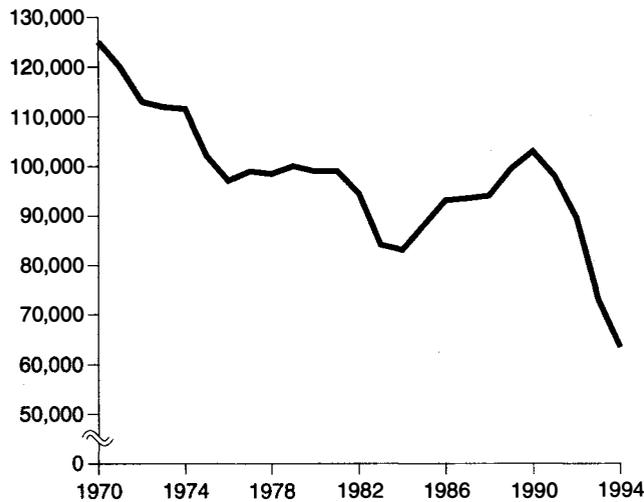
Employment in the German aerospace sector
(number of jobs)



Sources: BDLI; EIR.

FIGURE 3

Employment in western German machine tool sector
(number of jobs)

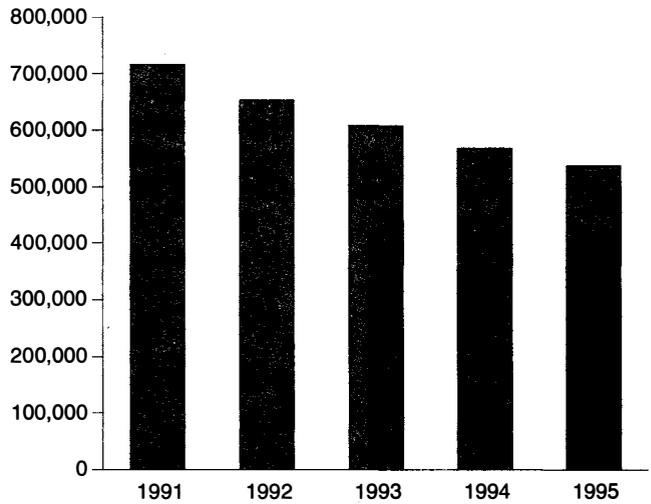


Sources: VDW; EIR.

obligations inside the German economy has reached DM 20 trillion. So, every year, DM 1,000 billion of financial income streams have to be maintained in order to fulfill these obligations. This volume has doubled in only six years (Figure 5). Productive investments are declining.

FIGURE 4

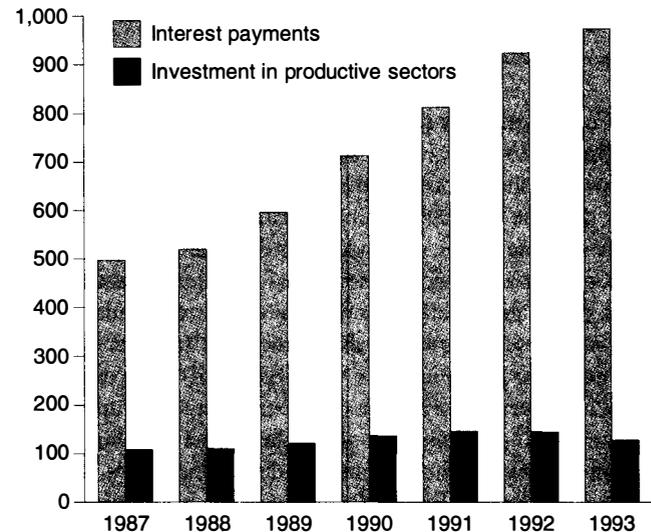
Employment in German chemical industry
(average number of jobs)



Sources: VCI; EIR.

FIGURE 5

Interest payments versus productive investment
(billions of deutschemarks)

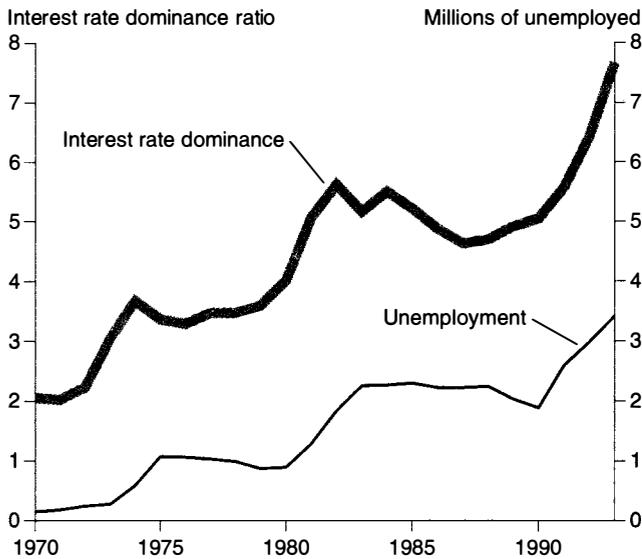


Sources: German Federal Statistical Office; EIR.

Here you can see this dominance of financial asset streams over productive investments, in the form of shocks, which are related to shocks in the international financial system, and are simultaneous with shocks in the rise of German unemployment (Figure 6).

FIGURE 6

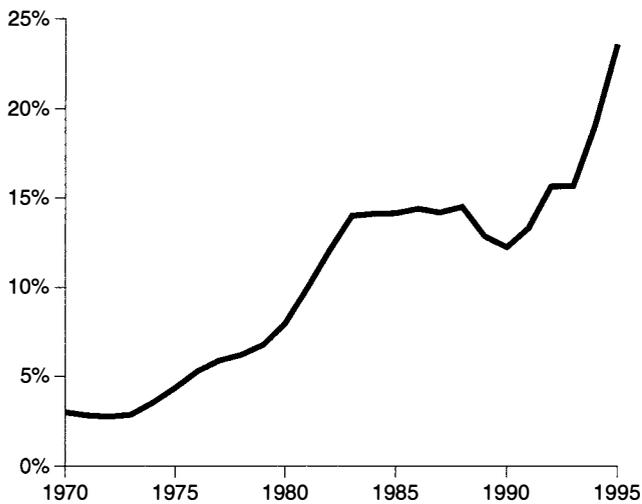
Interest rate dominance ratio* compared to unemployment



*Interest rate dominance ratio = $\frac{\text{interest payments}}{\text{capital investment in productive sector}}$
 Sources: German Federal Statistical Office; EIR.

FIGURE 7

Federal German interest payments, as a percentage of federal tax revenues



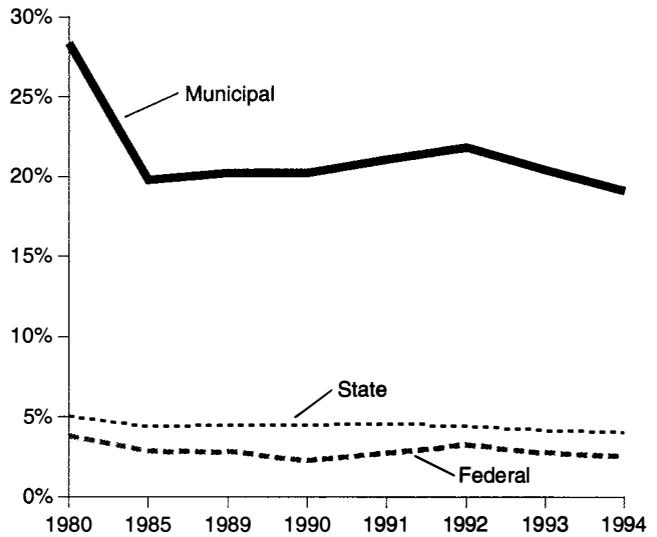
Sources: German Ministry of Finance; EIR.

A bigger and bigger share of the German tax revenues, therefore, goes for interest rate payments; it's now something like 24% of the whole income (Figure 7).

At the same time, due to the Maastricht budget-cutting

FIGURE 8

German public construction investment as a percentage of total public investment



Sources: German Federal Statistical Office; EIR.

mania, public infrastructure investments are decreasing very fast, especially in the case of the municipalities (Figure 8).

So, in conclusion, we can say that, without the reorganization of the global financial system and the establishment of a Eurasian infrastructure program of great construction programs on a Eurasian scale, there is no hope for the German economy.

Thank you.

Abalkin: Thank you. Vyacheslav Senchagov has the floor.

Vyacheslav Senchagov

Mr. Senchagov is the director of the Banking and Financial Policy Center at the Institute of Economics, Russian Academy of Sciences.

Esteemed colleagues! I think that discussion of Mr. LaRouche's report is of great theoretical, as well as practical interest. I would like to dwell upon the very complex, and still not fully clarified theoretical question of the relationship and interaction of the physical economy and finance. For a long time, it seemed to us that the West had actually achieved an optimal relationship between the physical and the financial aspects of the economy. Certainly, they saw the active role of finance and credit in economic development. But the data provided by Mr. LaRouche indicate that all is not well there.

I would name another indicator, which, it seems to me, in

a generalized form gives some idea about the violation of this optimal relationship. This is the off-balance-sheet liabilities in the banking system, in the U.S.A. and in other countries. At the end of the 1980s, off-balance-sheet liabilities were already double what the banks had on their balance sheets. Off-balance-sheet liabilities had reached the level of \$6 trillion, while the balance sheets showed \$3 trillion. Specialists estimate that today, the off-balance-sheet liabilities are even more out of correspondence; they exceed what is on the balance sheets by an even higher ratio. I cannot expand on this



Here's the point: to enter the world system or not, and if we enter, what do we bring to it? I believe that

Russia has something to bring in.

—Vyacheslav Senchagov

idea now, but I will just say that off-balance-sheet liabilities are liabilities, which don't count as banking activity, proper.

The fact that off-balance-sheet liabilities exceed what is on the balance sheets, is evidence of a balance crisis, and of the fact that a significant part of financial flows is out of control. It also shows, that many such flows are not backed up by any physical commodities.

If we examine our economy, the economy of the U.S.S.R. and Russia, we have to take note that here, too, there was no optimal relationship between the physical economy and finances. Management solely by financial instruments, in 1921-1928, even with a strong gold-backed currency, was not adequate to solve the problem of concentrating banking and private resources on strategic tasks. This model failed, not because of the evil intentions of Stalin, but because the model itself was not well refined.

At that point, there was a shift to a completely different model, based on the priority of physical, material balances, physical indicators, and so forth. In its pure form, we can say that this line also failed to be very promising, historically. But in the best period of its development, i.e., from 1965 to 1970, when reforms provided a better correspondence between the physical and financial indicators, it seems to me that this system reached its apogee precisely in that period. All subsequent attempts to strengthen the financial and credit levers, *violated* the overall balance.

If we take the situation today: A one-sided orientation towards financial and credit instruments, first of all, has led to a big collapse, to an effective suppression of the physical, material side—of the entire physical volume in the economy. Secondly, it has led to a collapse of employment, and an irrational utilization of labor resources. Third, it has created an unnecessary polarization of income.

The 'art' of economic and financial policy

Therefore, there is a basis for choosing to return to physical economic parameters. But this would be incorrect. Historically, it would be a big mistake. In this regard, I think it is possible very carefully to determine the correct proportions; this is the art of economic and financial policy.

I see one of the roots of a solution for this problem, as being a new approach to setting currency rates; and, on the basis of this, the recreation of the banking system; and, the creation of a good budget mechanism. I shall just mention the basic elements: First, the construction of a total, consolidated balance of the basic assets of all firms. The principle used should be the computation of current value, and certain other principles. This will permit the definition of a strong material base for the currency. Secondly, there should be an assessment of those components of wealth and the strength of the currency, which are not taken into account today. They are not part of financial turnover. This refers to economic minerals, which are properly valued at \$27 trillion; of course, this should be recalculated at a more realistic currency exchange rate, but there is no question, that this figure is fairly commensurate with the levels of imports we receive. That is, it will, of course, far exceed our imports.

The weakness of our currency, is chiefly due to the fact that we have not created a strong agriculture sector. Thus, we have to purchase a lot. We have a strong currency—in oil, gas, gold, other resources. On the basis of correct economic estimates and the development of appropriate mechanisms, it should be possible to create the real financial and credit possibilities for an upswing in all sectors of manufacturing.

On this point, not everything is totally clear to me, and I would not give a unilateral endorsement of the presentation by Professor Korolyov, whom I respect very highly, to the effect that Russia should create, in some sense, its own system, a closed financial and monetary system. [Murmuring in the hall.] Perhaps I am exaggerating what he said, somewhat, but—maybe just a little bit.

But here's the point: to enter the world system or not, and if we enter, what do we bring to it? I believe that Russia *has* something to bring in. Russia has a lot, but it is true that we do not have statesmen experienced in the financial realm, with the proper training for the present day. But Russia does have resources. It does not have managerial experience. But these are matters for negotiations, from the standpoint of recognizing each other's strength. The U.S.A., Russia, China—I think that is approximately the scheme.

In conclusion, I would like to say that the trouble with the situation we are in, is that—although this may have been appropriate, at a certain stage of things—our education in economics overrated the physical, material approach, so that we did not create an adequate cadre of specialists in credit and finance. Today, the young generation scores high marks for individual financial business operations, but is very weak, when it comes to the financial operations of the state. If we had a general education program in this respect, which would avoid any extreme approaches, I think it would be possible to talk about creating a new banking system, as well as the Russian ruble's entry into the international community of currencies. Thank you for your attention.

Abalkin: Thank you. I give the floor to Mr. Tennenbaum. Mr. Pavlov will be next.

Jonathan Tennenbaum

Dr. Jonathan Tennenbaum of the Schiller Institute is the author of numerous elaborations of large-scale infrastructural development programs, including the "European Productive Triangle" proposal in 1990 and the Eurasian land-bridge concept. He is the director of the Fusion Energy Forum in Germany. Portions in brackets were in the written text of his speech, but were not delivered orally.

Thank you very much.

Over the last 12 months, a number of institutions and organizations in Russia have put forward programs for "anti-crisis measures," to save Russia from the catastrophe which has resulted from the so-called reform policies, promoted and enforced by the International Monetary Fund (IMF). I do not want to talk here about the specific features of the various "anti-crisis" programs; I think, however, that there is a clear tendency emerging, in the direction of a conception of national-economic recovery of Russia, which would include the following ideas:

1. The process of collapse of agriculture and industrial production, physical infrastructure, public health and education, and the loss of in-depth scientific and technological potentials, must be reversed, *immediately*, through dirigistic actions by the state. This *must* be done, because if it is not done, then the continuation of the collapse process will mean the irreversible loss of Russia's sovereignty, national security, and even its physical basis of existence.

2. Russia's history and culture have unique features, which obviously must be taken into account in designing any effective policy for overcoming the present crisis. On the other hand, the kinds of measures which the Russian government take today, in order to restore production and rebuild the economy, do not require the invention of something fundamentally new. The history of industrial nation-states, such as France, Germany, and the United States, provides many

relevant points of reference. These include, for example, the "dirigistic" methods employed by President Franklin Roosevelt, to end the "Great Depression" of the 1930s in the United States, as well as the policies which guided the successful postwar reconstruction of France (under de Gaulle), Germany, and Japan.

3. In this context it is crucial to emphasize, that the rise of those nations to industrial power, and their recovery after wars and depressions, were always based on policies of "national economy," directly opposed to the monetarism and globalist "free market" and "free trade" dogmas preached by the IMF today. Those policies, associated historically with the names of Leibniz, Alexander Hamilton, Friedrich List, and Henry Carey, as well as Dmitri Mendeleev and Sergei Witte in Russia, emphasize the crucial role of the state, in

- i) regulating the essential monetary and credit functions of the economy, including ensuring sufficient flows of credit for expansion of the productive base of the economy (the latter being most effectively accomplished by "Hamiltonian" methods of credit generation by national banks);

- ii) providing measures of protection, price regulation (parity prices) and tax structure, which ensure an all-sided development of the nation's productive powers;

- iii) maintaining and developing basic physical infrastructure (transport, energy, water, communications), by means including state financing of large-scale infrastructure projects;

- iv) providing for universal education of the young, and for essential sanitation and health care services;

- v) promoting rapid scientific and technological progress.

These principles of national economy provide the basis for defining the kinds of measures required, short- and medium-term measures, needed to reverse the collapse of Russia's physical economy in the present, concrete situation. This is exactly what is done in several of the "anti-crisis" programs I have seen, which rightly emphasize such measures as: (i) Re-establishing control over the financial system and the main direction of investment flows [(including stopping capital flight and crushing the uncontrolled criminal element)]. (ii) Protectionist measures and price regulation, to stimulate domestic production and consumption of the most essential agricultural and industrial goods. (iii) Large-scale government investments in modernization of infrastructure, industry and agriculture. [(iv) Increasing the purchasing-power of the poorer majority of the population, while taxing excessive, speculative incomes and certain categories of exports,] and so on.

Two possible outcomes

Now, I think there is no doubt, that the kinds of national-economic measures, which I have just sketched, are absolutely *necessary* for a successful economic recovery of the country. However (and this is the main point I wish to make today), national economic methods by themselves are not *sufficient* in the present context. In fact, as far as I have seen,

the proposals for “anti-crisis measures,” [which have been published by various institutions and organizations in Russia during the recent period,] fail to adequately take account of the relationship between events in Russia, and the processes occurring within the world as a whole. This point has already been addressed by Mr. LaRouche, but it is of such importance, that I shall try to summarize it in the most condensed possible form.

The present period of crisis has two possible outcomes.

In the first case, assume that no effective action is taken, by the United States and some combination of nations, to



The decisive factor determining the outcome of a national-economic recovery program

in Russia, is Russia's contribution to a successful reorganization of the world financial and monetary system as a whole.

—Jonathan Tennenbaum

reorganize the world monetary and financial system. This situation would inevitably lead, after a (probably very short) period of accelerated, “hyper-looting” of the world’s population and physical economy, to a final, chaotic disintegration of the entire world financial system. Let us call this alternative “Condition A.”

In the second case, let us suppose that, as the outcome of negotiations between the governments of the United States, Russia, China, and other nations, a reorganization of the world financial system, along the lines defined by Mr. LaRouche, is carried out in the immediate future, and that gigantic bubble of financial securities, not backed up by real values, will come to an end. This will create a qualitatively new situation in the world. Let us call that “Condition B.” My essential assertion is the following:

Under “Condition A,” any attempt to carry out a national-economic recovery in Russia is *doomed to fail*. Russia will be destroyed, along with virtually every other nation on the face of the Earth.

On the other hand, if Russia were to take part in bringing about “Condition B,” then a well-designed mobilization for

national-economic recovery in Russia would *not only succeed*, but would produce a far better result, than could be hoped for under any other conceivable condition.

In other words, the decisive factor [or “boundary condition”] determining the outcome of a national-economic recovery program in Russia, is Russia’s contribution to a successful reorganization of the world financial and monetary system as a whole.

In this connection, the following remarks are relevant:

1. The economic disaster brought on by the liberal reforms in Russia, is by no means an internal failure of Russia. Rather, the process of looting and collapse of the Russian economy is an integral part of the collapse dynamic of the world financial system as a whole.

2. This looting of Russia is not something imposed *only* from the outside. If we examine the origin of the legal, quasi-legal, and criminal networks involved in such things as capital flight, dollarization, looting and smuggling of raw materials and other products, the speculative asset-stripping of companies in connection with “privatization,” and so on—then we inevitably discover, at the top level, an intimate relationship between portions of the *Nomenklatura* of the Soviet period, and high-level circles of Anglo-American finance, which can be traced back much, much further than the beginning of “*perestroika*.” It is relevant, in this context, to mention such names as Armand Hammer, [Robert Maxwell,] and Marc Rich, for example.

3. Thus, the so-called mafiazation or criminalization of the Russian economy is a process going (primarily) from the top down, from the global to the national scale, and not from the bottom up. There should therefore be no illusion about the fact, that to break the power of the criminal mafias in Russia—a step which is a precondition for carrying out a national economic recovery—means that you are in reality confronting a *global power*, namely the power of the London-centered financial system itself.

4. At the same time, the continuation of the cancerous process within the financial system, as described by LaRouche, will “drive” further, rapid escalation of the pressures placed on the Russian economy—pressures which are “leveraged” through Russia’s growing dependence on massive imports of food and other products, its dependence on exporting raw materials to the world market, and the demands of the domestic “mafia” structures whose activities are interconnected with the speculative bubble in the world economy as a whole. Furthermore, not only the IMF, as is obvious today, but the entire apparatus of the United Nations has been transformed into a police apparatus for managing a genocidal, “hyper-looting” process against the physical economies of Russia and every other of the world’s nations. Under these conditions, the possibility of a national-economic recovery of Russia is zero.

[5. A final, uncontrolled collapse of the world financial system, which is inevitable under “Condition A,” would by

itself not produce an improvement in the situation; at that point, unless governments would succeed, by immediate, emergency actions, to install a new financial and monetary system, the world would be plunged into a chaotic “dark age” characterized by the total breakdown of trade and essential economic functions, the explosion of every type of regional and ethnic conflicts, famine and epidemics. Russia, and most other nations, would quickly cease to exist.]

Prospects under a new financial system

Let us now consider the more pleasant case, where a reorganization of the world financial and monetary system is carried out by agreement between a combination of powers, including the United States, Russia, and possibly China, and others. In the language of Riemannian physics, the transformation from “A” to “B” defines a *phase change* for the world as a whole, as well as—implicitly—a change in every process occurring anywhere in the world. It will define the strategic, political and economic geometry of the twenty-first century.

That is the most important point. In my paper, I present some ideas about the recovery of the Russian economy, in the “B” geometry. This entails new infrastructure programs, the Eurasian land-bridge connecting Russia with South and East Asia. I also develop the role of high technology, space exploration, and so forth. These points are already there in LaRouche’s “Memorandum on Prospects for Russian Economic Recovery.”

[The creation of such favorable “boundary conditions” for a national economic recovery of Russia, have important strategic implications for the optimal form of the recovery program itself. For time reasons I must limit myself to a few summary indications. Let us first look for a minute into the future of a world economy expanding rapidly under the regime of a new financial system. Here, the key feature of the new financial and monetary system, is to remove the cancerous burden of unpayable debt and speculation, to provide—through the credit-generating mechanism of “Hamiltonian national banking”—large volumes of long-term, low-interest credit for all categories of infrastructure, agro-industrial and high-technology development.

1. Russia has a unique economical-geographical position, as the bridge between Europe and Asia. In the early twenty-first century, the “center of gravity” of the world economy—the region of greatest and most intense economic activity—will be located in Southern and Eastern Asia, on the Pacific and Indian Ocean basins, where China and India together constitute over 2 billion persons. The result from the development of those nations and the adjacent regions in the early twenty-first century cannot be maintained without the large-scale use of “space-age technologies”—including controlled nuclear fusion, laser and particle beam technology, superconducting technologies and revolutionary biophysical methods of agriculture and medicine. On the other hand, those same nations are characterized today by an extremely low average level of

education and of technology. For example, although China made a notable contribution to the development of technology in earlier periods, China played essentially no role at all in the explosion of modern science, which followed the fifteenth-century Golden Renaissance in Europe. Russia, on the other hand, in spite of terrible problems and initial disadvantages, has had a rather rich experience of scientific and technological development, stretching from the period of Leibniz’s collaboration with Peter the Great, up to the point of becoming a scientific and technological superpower in the postwar period. Looking at Russia from the standpoint of China’s most urgent economic and cultural requirements, we recognize, that Russia is destined to function—as it did for a brief period in the 1950s—as a chief transmitter of science and technology to China. Similar considerations hold for India and Russia’s other neighbors to the south. Concretely, this would translate into a huge market for high-technology capital-goods exports from Russia (as well as from western and central Europe, via Russia), into southern and eastern Asia.

2. The developments indicated above, lead inevitably to a rapidly increasing role of the land transport routes linking Asia and Europe—the so-called “Eurasian Bridges,” which include the Northern Route provided by the Trans-Siberian railroad; and the “Second Bridge,” whose final link was completed about five years ago, running from the eastern coast of China, through Sinkiang and Kazakhstan, and then northward through Moscow to the Atlantic coast of Europe. Actually, we are talking about the evolution of an entire Eurasian railroad network, including also a southern network linking Southeast Asia to India, Pakistan, Afghanistan, the Central Asian republics, Iran and Iraq, and running through the Near East into Africa and through the Balkan States into Central Europe.

3. The positive economic impact of such a Eurasian railroad system can be multiplied many times over, if we transform the regions along the railroads into what we have called “infrastructure development corridors.” This means building up, within the strip of land located 50-70 kilometers on either side of the main rail lines, systems for modern transport, energy, water, and communication, new, modern urban population centers and agro-industrial complexes. Here, the most advanced technologies must be used: nuclear energy (fission, later fusion), use of hydrogen and other synthetic fuels, magnetic levitation transport systems, etc. Under such conditions, development of the system of Eurasian “infrastructure corridors,” with its branches and “capillaries,” becomes the most efficient single means for transmission of science and technology to the under-developed areas of Eurasia—including parts of Siberia itself. For reasons connected with the so-called “density functions” of Physical Economy, the increase of density of population and economic activity within such “corridors” leads to an increase in the physical efficiency of the economic process itself.

4. This type of “dense corridor” development is also uniquely suited to the special requirements of Russia’s own

economic reconstruction. Here a great problem is posed by the low population densities and extremely long transport distances, especially in the Asia part of Russia. On the one hand, Russia urgently requires a thorough modernization of its basic infrastructure. On the other hand, the efficiency of basic infrastructure investments (including transport, energy, water, communications as well as health and educational infrastructure) increases rapidly with the increase in the density of population and economic activity. Thus, the use of large-scale, state-financed infrastructure projects to revive the Russian economy, should emphasize the Eurasian development corridors, which, at the same time, will play a great role in the growth of capital-goods exports to the Southern and East Asian countries.

5. "Infrastructure corridor" development of this type also provides optimum conditions for the conversion of military industries, on the basis of long-term contracts for supply of essential equipment and new technology.

6. Besides large projects for modernization of infrastructure (including housing), the second, most essential element which must be included, is an expansion of the manned space effort, beyond even the dimensions of the former Soviet period. The central focus of this must be a long-term program, in cooperation with the United States and other countries, to establish a permanent "science city" on the surface of Mars, within the next forty years. This is not an extravagant luxury, but a matter of survival for Russia and the human race as a whole. As a result of the combined effects of anti-science, environmentalist and "post-industrial" policies, and the collapse of real investment into high-quality education and research, we have created a situation in which most of the world's remaining scientists are either not working at all, or are spending most of their time doing computer simulations. If we continue this much longer, then we will soon find that we have lost our scientific capability, because our scientists have gone insane. To relaunch fundamental scientific and technological progress, and restore the vitality of human civilization, we must take people away from their computer screens and put them back into the laboratories and projects, to uncover the anomalies of the real universe. A large, manned space program is today actually the cheapest, most effective means to generate the high rate of breakthroughs in science and technology, upon which any healthy economy must be based.]

Abalkin: I give the floor to Valentin Pavlov, whose titles I mentioned earlier. Professor Muranivsky will be next.

Valentin Pavlov

Valentin Pavlov is the former finance minister of the U.S.S.R. (1989-91) and former prime minister (1991).

I shall give my views of the question under discussion,

and I excuse myself in advance, if they do not coincide with everything that has been presented here today.

First of all, it seems to me unquestionably the case, that Mr. LaRouche is proceeding from the current situation in the development of the global economy as a single whole. I am very impressed by his approach, of viewing the problems of individual countries as parts of a general problem. I personally agree with him, that in the framework of the overall maturing of the crisis, the manifestations of that crisis can be artificially directed, if you will, along meridians or parallels, into individual countries, by specific means.



The entire system existing today, has been, to a significant extent, imposed on Russia—and it was imposed

with the aid of television. I think that posing such questions for discussion at this round table on economic policy, is one of the ways of breaking through that black box.—Valentin Pavlov

In a given instance, what Mrs. Carrasco presented about Mexico, concerns Mexico; what is happening in Russia, concerns Russia. But these are, essentially, manifestations of a general crisis situation, in the framework of which—I would put it this way—the main orchestrators, who are upholding, so to speak, their own vision of the problem and their own outlook for the future, are able to derive proofs of the effectiveness of the system existing today, by pointing to the achievement of a high standard of living—while real productive forces are in decline—in the United States and some other countries. In this case, the crisis is like a chemical solution, the concentration of which is simply approaching the critical point. That is what happened in Mexico, and we are witnessing the development of this situation in Russia.

I would view this idea of Mr. LaRouche's, today, as an early warning system for global economic crisis; because it may be possible to shift the crisis in the direction of Mexico today, Russia tomorrow, China the day after tomorrow, but the lawful nature of the process, as such, still comes to its end.

Sooner or later, these crisis symptoms will appear on a mass scale, as we have already begun to see, for example, in today's presentation on Germany. They will affect the United States itself, as well—the main base of the International Monetary Fund.

I also believe that it is of great importance for Russia, how Mr. LaRouche looks at the entire problem; not only the coherence of the financial sector with the productive sector of the economy, but also, processes within the financial sector. Using the information we have available in our own country, I would say that it shows that the entire conduct of economic policy, which is also seen upon examining specific problems, is an approach that, I would say, has come to a breaking point, above all with respect to the financial sector of the economy. This is most apparent in the fact that the government of the Russian Federation, with the tacit approval of the IMF, proposes to consider the restraint of inflation as its major achievement, forgetting that inflation can be measured with various instruments. Today, it is proposed that we measure the suppression of inflation, by the fact that the rate of the ruble has ceased to fall.

One way to measure inflation

If it is permissible before this audience, I shall allow myself to depart somewhat from an academic approach. At least the Russian part of the audience recalls very well, that under Soviet power, the rate of inflation was measured by the queues, the length of the queues. Today, I would propose just as successfully to measure inflation by the level of wages not paid. This is not to mention the other side of the problem, namely that today, we are all confronted with a system, under which real value—from the standpoint of the real sector of the economy, the basic enterprises of the Russian Federation—has been redefined to an unbelievably low level. If we are willing to assess one of our oil companies at \$150 million, that right there, expresses the level of inflation that really exists, at least in the productive sector.

We have our numerous candidates for various posts and positions, but these days they all begin by boasting about what big capital they have. But they keep quiet, in shame, about the fact that this capital was created by buying up vouchers. This is, at the State level, a classic form of inflation: the real devaluation of real facilities. Therefore, when we discuss these problems today, for me personally, this question of the coherence of the financial and the real sectors of the economy, and the coherence of instruments acting *within* the financial sector, is extremely fundamental.

In this sense, when such a global problem is under consideration, I think that the historical experience both of the United States and of the Soviet Union, and now Russia, demonstrates, above all, that it is impossible to solve this problem without State intervention. Today, the mechanism for development of the relationship between the financial sector and the real economy is neglected. This means, that the patient

has fallen ill. If there is not some external intervention by a doctor, the disease will end as is its wont—a fatal outcome. Here again, world experience demonstrates this, including the experience of the Soviet Union, the United States, and Germany. And it seems to me, that we should not separate the prescriptions that are appropriate for curing individual parts of the organism—if only because today, we view the economy of any single country, as a part of the world economy. One cannot seek a medicine for just the local ailment. To undergo treatment in isolation would mean to fall out of the common international division of labor. Something like that, generally speaking, happened with the Soviet Union.

If we turn to the international aspect of this problem, it was always propagandized in the framework of the UN, as “development with reliance on national resources.” The IMF, in turn, always liked to go hunting for “internal financial sources for development.” I think they have retained these habits.

But I think that approaching the financial sector as a single whole is of fundamental and practical importance for Russia today. The elimination of the government from the drafting of real reform decisions is, in my view, quite irresponsible.

I would like to express my viewpoint on one other aspect of this problem. Mr. LaRouche devoted, in my view, *very scant* attention to the question of the television set. The entire system existing today, has been, to a significant extent, *imposed* on Russia—and it was imposed with the aid of television. I think that posing such questions for discussion at this round table on economic policy, is one of the ways of breaking through that black box. Unfortunately, this TV mania not only influences the masses of ordinary voters, which the politicians have to take into account, like it or not, but also the politicians themselves. I hope that, among our candidates for President, there will also be people, who find in themselves the knowledge and strength to tear themselves away from assigned schemes and create their own. I personally wish Mr. LaRouche success in this fight.

Thank you for your attention.

Abalkin: I give the floor to Taras Vasilyevich Muranivsky, and I implore him to be very concise.

Taras V. Muranivsky

Professor Muranivsky is the president of the Schiller Institute for Science and Culture in Moscow.

I shall be very brief, and I shall dwell on another aspect of this issue—an academic one. We are discussing the problem of Russian reforms, but we are trying to view it through the scientific prism, developed by Mr. LaRouche and some other foreign researchers. It seems to me, that the strength of LaRouche's conception and of physical economy as a theory, is that it is highly scientific. It is not by chance, that he calls

it *the science* of physical economy, and that the books and articles we have translated are based on the achievements of philosophy, mathematics, geometry, physics, and other sciences; because, in his view, economics is just as much one of the natural sciences as these others are.

I think that Academician Landau's joke was very true, when he divided the sciences not into natural science and the humanities, but into natural and unnatural sciences. Recently I received a call from a member of the Academy of Sciences,



The "post-industrial society" utopianism, promoted by Russian economists,

distracts attention from the productive forces of society, and overemphasizes the importance of the service sector.

—Taras Muranivsky

a doctor of physical and mathematical sciences whose name I don't wish to mention, who asked me, after having read LaRouche's works: "Maybe there's something here I don't understand. Perhaps there is some eclecticism here." I answered that, in order to understand what eclecticism is today, one must take a look at recent issues of *Voprosy Filosofii*, as well as—forgive me, Leonid Ivanovich—*Voprosy Ekonomiki*. When we began to be allowed to use theories other than Marxism, we began to use all of them, indiscriminately.

LaRouche's physical economy, meanwhile, traces a very precise, clear line from Plato, through Nicolaus of Cusa, then Leonardo da Vinci, Leibniz, Alexander Hamilton, Mathew and Henry Carey, Friedrich List, which encompasses our scientists such as Mendeleev, Witte, and Vernadsky. Throughout, this theory is counterposed to empiricism, nominalism, and so forth.

In my limited time, I would like to state literally three or four theses, which provide the conceptual basis for overcoming the crisis, by which we are more and more surrounded.

First: A continued policy of individualistic liberalism will lead to a deepening of the crisis and to the further spiritual and moral disintegration of society.

Second: The extreme exaggeration of the role of moneta-

rist methods, in attempts to overcome the crisis, will lead to a prolonged collapse of production and the dysfunction of the financial and credit system itself. The disease is the same, as identified by Mr. LaRouche and Dr. Tennenbaum for the world economy, and by Dr. Senchagov for the Russian economy. It is what the French economist Maurice Allais called tumors, financial bubbles, on the living body of the economy.

Third: The "post-industrial society" utopianism, promoted by Russian economists, distracts attention from the productive forces of society, and wrongly overemphasizes the importance of the service sector. Taking the example of the United States, I could cite not only the evaluations of scientists and politicians such as LaRouche or [Senator] Edward Kennedy, but also the *proponents* of that pseudo-conception—"post-industrial society"—when they talk about the transformation of American into one big casino, living at the expense of other countries of the world. And we try to portray this as a good development!

Fourth: Continuation of the previous privatization policy will yield nothing but disaster. Marivilia Carrasco told us a lot about Mexico, but she omitted one very important thing: that in Mexico, there are forums taking place, which have become a regular institution, with participation from throughout Latin America, under the title, "There Is Life after the Death of the International Monetary Fund." And when Leonid Ivanovich [Abalkin], in one of his articles once, wrote that Presidents and governments should wash their hands of the question of forms of property ownership—whether private, or state—and should not get involved in that, I completely agree with him.

The last point, is that we are served very poorly by pseudo-scientific ecologism, or environmentalism. This activity is aimed straight at the destruction of the country's electric power system.

We should think about these problems and, armed with truly scientific methods, we can do something to solve them in our country. If I have gone over my time limit, it is only because of the time required for translation.

Abalkin: Esteemed colleagues, I have notes from four more participants in the round table. I think that each of them should get the floor. I repeat that the materials will be available in the record. I give the floor to Yelena Nikolayevna Viduta.

Yelena N. Viduta

Yelena Viduta is with the Plekhanov Russian Economic Academy.

Mr. LaRouche, I would like to thank you again for being so attentive, not only to the fate of the world community, but specifically to the fate of our country. I am very pleased, today, to see you not only in the company of those who welcomed you at the State Duma last year, but to see here Leonid

Ivanovich Abalkin, who enjoys great authority, not only among economists, but also among politicians; and it seems to me, that this cooperation will expand, which will benefit our country, as well as the whole world.

I can endorse completely, what Dr. Tennenbaum said today. He is a representative of another country, the United States, but what he stated regarding the principles of national economy, is, I think, unquestionably applicable to our situation. Specifically: Without a doubt, we need protectionism;



Without a doubt, we need protectionism; state regulation of the economy; and to turn our attention, today,

not merely to the redivision of property ownership.

—Yelena Viduta

state regulation of the economy; and to turn our attention, today, not merely to the redivision of property ownership. Unfortunately, many parties of the left and the right are fixated on this question of the redistribution of property. But today, priority attention should be given to state regulation of the economy, and coordination.

I was very pleased when Dr. Tennenbaum came recently, with [Michael] Liebig from Germany, and they focussed first and foremost on the question of productive investment, defining this as the main task for our state. It is clear that credit and financial policy in the framework of our state, should be subordinated to this main task of stimulating productive investment.

Now, something on the international financial system. Unfortunately, I cannot agree with the viewpoint of Mr. Koro-lyov, who holds that what happened in 1945 was an attempt to return to the system that had prevailed in the 1930s. The point is that there was an attempt to achieve balance in international trade through measures based on classical economic theory. But then, after the intervention of Mr. Keynes, it became clear that the main factor upsetting the equilibrium was the growth of each country's national income, rather than the fluctuation of prices. The question on the agenda was rather more serious: how to stabilize international trade relations, after 1945.

It is understood, that any country making recommendations to the coordinating bodies of the International Monetary Fund, attempts to uphold its own interests. And it is quite clear, today, that the IMF defends the existing strategy of international financial relations, because this is the most advantageous for the wealthiest country—the United States. So it is very good that there are people in the United States like LaRouche, who rise above national problems, and become major geopoliticians; he has, I think, established absolutely new coordinates for international financial relations, for the world economy.

In my view, the main task that a new regulatory body will face—and it may also be called the International Monetary Fund—will be to stimulate and promote productive investment in all countries. It may be that this new International Monetary Fund will have to announce a debt moratorium for each country. And perhaps it really will be sufficient to have one single monetary unit for the whole world, like the SDR [Special Drawing Rights]; in determining the value of this unit, the weight of each country will have to be taken into account, from the standpoint of the growth of the real purchasing power of national currencies, which will be chiefly determined by the rate of growth of production of consumer goods in each country. Of course, all of this will need to be brought into correspondence with the growth of the money supply in each country.

And it seems to me—this is just my personal wish—that the interaction of such major political figures as Lyndon LaRouche and Leonid Abalkin should not be limited to round table discussions, but that they might proceed to make some joint, constructive statements, the essence of which would be understandable for the leaders of both the U.S.A. and Russia.

Abalkin: Thank you. Zabrodotsky, Yuri Nikolayevich, president of the “New Thinking” Academy. Next will be Koryagina.

Yuri Zabrodotsky

Mr. Zabrodotsky is president of the Novoye Myshleniye Academy.

In order to be as concise as possible, I have sketched a diagram; but insofar as most people won't be able to see it, I can demonstrate this simple scheme with the five fingers of one hand.

A short preface to that: No measures for solving various problems of development will yield any result, in my view, as long as the proposed solutions lie outside the solution of the fundamental contradiction of civilization. I would define the main contradiction of civilization, as the contradiction between all known modes of production, and the modes of life. Another phrase on this: What defines the qualitative essence of a mode of life? The qualitative essence of any mode

of life is defined by the principle, according to which the natural product is appropriated—whether by the cancer cell’s principle, of taking more than one gives, or by the sower’s principle, of giving more than one takes. If economists and other analysts were to proceed from original causes, in their analysis of crisis phenomena, this would undoubtedly help Mr. LaRouche swiftly to destroy the highly destructive conceptual models of development, existing today. They are pathological.

If we want to talk about genuine expanded reproduction, we must talk about a triune quality of development. The triune



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quality. There are three elements to this development. Now, I will make use of one hand. If my little finger is the x-axis and my thumb is the y-axis, the three rising development vectors in the middle can be enumerated as follows: the main productive forces, the production of material goods, and population growth. This is how civilization should develop, taking into account the so-called main productive forces. Today, however, you may ask any economist, and not one of them will be able to tell you how the natural component is taken into account, in the calculation of cost. The logic of this initial mistake results in further mistakes, later on.

The author of physical economy has taken a huge step, with his well-argued refutation of models that are destructive for development. Today—using my hand again, to demonstrate—the production of material goods and the growth of population occur at the expense of the corrosion of the biosphere, of the conditions for development. When this upper curve begins to intersect the lower curves, this expresses all the problems of our time. If we take civilization as a whole, we are developing in a degenerative, pathological fashion.

There are different degrees of seriousness of decay. If we take the so-called developing countries, the situation looks

like this: The upper two curves are falling, while the population is growing. The environment is degraded, production is falling, but the population is growing.

Abalkin: We have everything falling at once.

Zabrodotsky: Absolutely right. If we look at Russia today, all three are going down. This is an extreme degree of pathological development, an extreme degree of degradation.

But, as is often said, in absolute darkness, the sense of vision becomes sharper, and he who wishes to see, begins to see better. In this context, we see beyond a doubt the progressive nature of LaRouche’s ideas. We also see the work of certain of our own thinkers, who unfortunately have not been mentioned here today, but whose work is very important, and who could provide very important supplementary arguments in favor of LaRouche’s theories. I have in mind, above all, our thinker from the end of the last century—Podolinsky. He was the first to introduce the concept of mankind’s “energetic budget.” I think that his work contains a key for the analysis of the discontinuity we have today, the separation between the physical aspect and the fictitious part, which is what economists use as their calculating instrument today. Thank you for your attention.

Abalkin: Thank you. Tatyana Ivanovna Koryagina, the well-known economist and public figure in our country. The last speaker, then, will be Mr. Rytov from the Africa Institute.

Tatyana I. Koryagina

Tatyana Koryagina is the director of the independent agency, Socio-Economic Programs, Prognoses, and Alternatives (SEPPA).

Esteemed colleagues, dear guests. We are tired already, and I shall try to speak briefly.

It seems to me that a distinguishing feature of our conversation today, primarily among economists, is the constant interweaving of national and global economic problems, with political problems. In the longer perspective, as Mr. LaRouche indicated, we are talking about analyzing the course of historical time. I would even say—about the sacred meaning of history, and the struggle between good and evil.

Many of my colleagues have spoken in the language of geometry today, and I, too, maintain my own triangle. In the framework of that triangle, I would pose three questions: How? Why? and Who?

How, was outlined in the first presentation, by Mr. LaRouche, when the more general description of the international financial crisis incorporated the mechanisms of low-intensity conflicts. The problem of *why* was outlined in a number of presentations, and I would say that it is the problem of the battle over resources.

And—continuing the discussion with Mr. Korolyov—while I fully support the viewpoint that we should be con-

cerned with our domestic problems first and foremost, and secondly with global ones, I would just ask, in the context of the overall conversation: Who is going to leave us alone just now, to deal with our own problems? Like it or not, Russia covers an enormous territory, has enormous intellectual potential, and natural resources.

Our colleague Dr. Tennenbaum gave his answer to the question of *who*. This is international organized crime. I would like to elaborate on this subject, and, in the time allowed, bring additional factors into the analysis. In our re-



I would like to draw attention to the fact that the world is moving not simply towards becoming a criminal community, but, in my view, it is moving in the direction of a new totalitarian order.

—Tatyana Koryagina

search, we identify the natural factor of development, as well as the artificial factor. Without an analysis of the artificial factor, in the context of synthesis, it would be impossible to understand, for example, why our colleague Valentin Sergeyevich Pavlov found himself in prison—having honestly defended his scientific views—while neither Nikolai Ryzhkov nor Leonid Abalkin went to prison. This was both accidental, and lawful. The chance element, is that Leonid Ivanovich, Nikolai Ivanovich, and Valentin Sergeyevich all occupied high government posts at some point. What was lawful, is that the country was going through a period of both hot and cold conflict, and so it happened that the Soviet government colleagues, in the Council of Ministers headed by Pavlov—the other ministers of the U.S.S.R. were not sent to prison, while Mr. Pavlov, unfortunately, had the full weight of that evil come down on him.

Thus, talking about the natural and the artificial, I would like to draw the attention of our colleagues, both Russian and foreign, to the fact that the world is moving not simply towards becoming a criminal community, but, in my view, it is moving in the direction of a new totalitarian order. One confirmation of this, is that in the framework of worldwide illegal business, the foremost places are occupied not only by

highly profitable types of business—of course, the leader is the international narcotics trade, where the rate of return is as high as 1,200% per year—but also by capital-intensive sorts of production, the effects of which will continue to be felt very far down the line. First, I would mention the worldwide power sector, including nuclear power, and aerospace.

Moreover, there is a particular kind of interaction between the strictly criminal international organizations, and the intellectual-informational-psychological area of human activity. This is what we have discussed today, with respect to the mass media—especially television. But I would add, in this connection, a peculiar phenomenon in this sphere of organized crime in the world, which is the so-called economy of sectarianism, of religious sects.

Coming back to the beginning of my remarks, I would say that the issues we have to discuss today come down to the question of a choice: *Who is going to fight for what*. On the side of God, or of Satan? I think that literally almost everybody in our country today, has to make this choice. Therefore, I think that there are still many people who are waiting their turn to take the path Mr. Pavlov had to.

Abalkin: Thank you. The last registered speaker is Mr. Rytov.

L.N. Rytov

Mr. Rytov is from the Africa Institute of the Russian Academy of Sciences.

I liked Mr. LaRouche's presentation very much. Therefore, I shall not cite all the points with which I agree, of which there were many, but in the interest of economizing on time, I shall touch on those questions where I am not in full agreement, or where I have some doubt.

The question was raised, that the growth of physical production is lagging behind the state of monetary and financial circulation on a global scale. This problem exists and it is very serious, on both the micro- and the macroeconomic levels. But I, at least, cannot agree with LaRouche's warning about the fatal consequences of this tendency—or, as it was said here, about the end of human civilization. I cannot agree, because I found many of the logical proofs, offered in the presentations by others, not entirely convincing.

It seems to me, that the activity of certain national and supranational forces has been presented with some exaggeration. One example is the role of the British Empire or the London economic center. Or, there was a one-sided evaluation of these international forces, for example in how the international activity of the International Monetary Fund was evaluated. Not only the main speaker, the author of the most interesting presentation, Mr. LaRouche, but I think everybody discussed only the negative aspects of the IMF's activity. I do not think that such an approach is fruitful, respecting the

activity of any organization.

Certainly, the IMF deserves criticism, and its policies are often unfair to developing countries, and other countries. But examples may also be given of its positive role, in stabilizing the situation in various countries. If we take Russia, IMF aid has evidently helped to maintain a somewhat stable situation during the four years that Boris Yeltsin has been in power. It is not a question of whether or not each of us likes or does not like the Yeltsin government, but that, generally, thanks to IMF assistance, that regime has survived four years, while the situation was relatively stable.

Certainly, the IMF deserves criticism, and its policies are often unfair to developing countries, and other countries. But examples may also be given of its positive role, in stabilizing the situation.

—L.N. Rytov

Abalkin: At what cost? Half of industrial production. The rise in the death rate. One-third of the population below the subsistence level. The prospect of the Mexico scenario.

Rytov: I have very little time, so I shall not react to these comments, but would draw Academician Abalkin's attention: Regarding the collapse of production, I am talking not about economic stabilization, but political stabilization.

Abalkin: And I was talking about the price paid. This stabilization included the shelling of the Parliament, and the establishment of a general situation of terror.

Rytov: If we look at Africa, which I work on, there are several examples of the positive role of the IMF. Take, for example, the economic situation in Egypt after Nasser. Or, take the small country of Lesotho: The IMF saved the population there from hunger, after its secession from South Africa.

The question evidently arises: Is it worth it for developing countries to take loans from the International Monetary Fund and other international financial organizations? We have seen the terrible figures from Mexico. They are literally very frightening. But it seems to me, that these figures—minus one, plus three equals five—are a little tricky. What about this question: Wasn't Mexico taking new loans, not just paying on the old ones? I am thinking of the last years of Ceausescu, when Romania did not take any new credits, and paid off its previous debt in full. The result was an explosion of social anger, which did away with Ceausescu.

Therefore, the IMF's aid to Mexico may be interpreted as an attempt at enslavement; but on the other hand, it may be seen as an attempt to prevent a social explosion in Mexico.

Because an attempt to pay off the old debt, without taking any new credits, would mean even more belt-tightening for the population. And the price of a social explosion, or a revolutionary explosion, in that case would be far greater than paying interest to the IMF. I wanted to draw attention to the fact that it is impossible to study economic problems, in any particular country or in the world, except in connection with social problems.

At present, the International Monetary Fund is offering huge credit assistance to a newly independent country in Africa—the Republic of South Africa. Some people say that the IMF is *imposing* these credits. To date, the R.S.A. government has, in effect, turned down these credits. But as a result of this posture, the solution of the main economic and social problems facing the country is threatened—the reconstruction and development program. This program is aimed at improving the standard of living of the country's black population. The danger exists, that if the situation of the poor, black population does not improve in the coming five to ten years, a social explosion could ripen that would assume racial features—clashes between blacks and whites.

Finally, if we talk about the global level, about the possibility of a worldwide economic collapse, such international economic organizations as the IMF, GATT, and others can probably be viewed not only as factors threatening the economy, but as counterweights, deterrents to the threat of collapse, able to deploy such powerful economic mechanisms as changing currency rates, interest rates, and so forth.

I beg to disagree with the conclusion about an inexorable end of civilization, for the reason that I do not believe the world will end before the second coming of Christ.

Leonid Abalkin

Mr. Abalkin is an Academician, director of the Institute of Economics, Russian Academy of Sciences.

Esteemed colleagues, all those wishing to speak have had the floor, and we are nearing the conclusion of our work. I would like to remind you about the tradition of our round table. We do not pass a verdict here, on who is right, or who is right to what degree. This is not our purpose.

On the basis of the principles I mentioned at the outset, I would like to sum up very briefly.

On our first aim: Did we succeed in bringing together a powerful charge of intellectual energy, which would yield discussion and engagement of various ideas, and thus enrich us and move us all forward? I would answer that question in the affirmative. Irrespective of what I personally agreed or disagreed with, I found this discussion to be extraordinarily useful and fruitful.

Much of what was said here coincides with the research being done at our institute. In brief, we have reached the

conclusion that in the last third of the twentieth century, radical shifts in the development of human civilization have taken place. The development of human civilization is taking absolutely different directions, and with different tendencies, than were anticipated by the best thinkers not so long ago. The nature of this shift in the development of civilization still needs to be conceptualized, from the standpoint of identifying both its positive and its negative aspects. In our opinion, however, not a single one of the theories existing in the world, or in science, has yet been able to answer the questions that have arisen, that have been posed by reality. In addition to all the other crises—ecological, financial—there is a general, worldwide crisis of the social sciences, and social thought. To use the well-known words of Kuhn, today we are facing the necessity of developing a new paradigm in the social sciences, a new paradigm, which would explain the past and present of human society. I view everything of interest being done in various scientific schools of thought in the world today, as the first small steps in a search for this new paradigm. I also see all the work of Professor LaRouche as a step on the path to this paradigm, but not as the ultimate answer to all the questions or a fully formed new type of social consciousness.

I would like to distinguish those consequences which follow from the imperfection of theoretical concepts, from those that have other causes. Of course, I am prepared to endorse the criticism of monetarism, the primitive notions of monetarism, but I would not be inclined to attribute everything solely to those mistakes; although they do have a very strong influence on people. What I would like to emphasize, is what I was saying before—that they have a powerful reproductive capacity. The errors of monetarism have a strong basis for reproducing themselves.

‘Well-armed, well-trained adversary’

It would be better to put it more simply: The old men will die off. The centers of monetarism are recruiting *the best students, all over the world*—from Russia, from China, and so forth. They pay people high stipends, to attend their universities, business schools, IMF training programs, and so on. They are training people to be just like them, who will take their place in the governments of the relevant countries, and in the apparatus of the IMF and other international organizations.

The same resources are financing publication of a huge quantity of literature, preaching these ideas. Powerful electronic information networks, including television, have been coopted for the purpose of imposing these ideas. So I would like to say that we are facing a rather powerful, well-armed and well-trained adversary, which will not surrender its positions without a fight. Furthermore, this is augmented by a second factor, namely economic interests. The conduct of that policy yields a very high return, which makes it possible to buy off not only individual people, but entire governments; to finance the training and recruitment process generously.

I think that this is a big task, which needs to be discussed further, on a global scale. We should, somehow, raise an alarm in the world community, including the world scientific community, about the dangerous consequences of such a one-sided, extreme conception of politics and financial affairs.

But, on the other hand, there is a practical question here: the problems of Russia today. I, too, am not inclined to paint a picture of Apocalypse. But, in analyzing the destruction of the technological nucleus of our economy and the loss of our leading positions in several areas of economics, science, and education, I conclude that we still have a reserve of two



I conclude that we still have a reserve of two or three years at most, after which the destruction . . . will become irreversible, and the fate of Mexico will descend upon Russia full-force.

—Leonid Abalkin

or three years at most, after which the destruction, including the destruction of the genetic pool of Russian [*rossiiskogo*] society will become irreversible, and the fate of Mexico will descend upon Russia full-force. Studies show that if these policies continue for two to three years, the debt noose will tighten around the neck of the Russian economy, and it will be tightened automatically—if there is not a radical break with these policies, during the next two to three years.

While from the standpoint of this intellectual exchange, I think we have already accomplished the task of today's round table, and accomplished it well, there is the second task I mentioned—to awaken public opinion and draw the attention of political forces to the problems Mr. LaRouche has posed, and to the discussion that unfolded around them. I think that we must break through the wall of silence: to publish the proceedings of this round table as soon as possible; to make a certain amount of publicity around them; if possible, to publish them in several languages. This will have to be discussed in a working meeting; we cannot vote on it. But I think that we should record our shared, firm consensus that this material should be distributed as widely as possible, and public attention drawn to it, not only in Russia, but perhaps also in other countries.