

Russia, the U.S.A., and the Global Financial Crisis

by Lyndon H. LaRouche, Jr.

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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 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 discussion 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 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 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 thermo-nuclear 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 Indo-China. 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 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 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 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. [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 forms 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.