
Lyndon LaRouche

Give Politicians A New Conception Of Economy

“The Global Economic And Financial Crisis And The Strategic Role Of Russia” was the topic of the Dec. 15 seminar hosted by Academician and government economics adviser Dmitri Lvov, at the Central Mathematical Economics Institute (CEMI) of the Russian Academy of Sciences. It featured this presentation on the global economic and strategic crisis by Lyndon LaRouche, introduced by Academician Lvov; the discussion was later joined by Dr. Sergei Glazyev, chairman of the Economics Committee of the State Duma (lower house of Parliament). Subheads have been added.

Academician Dr. Dmitri Lvov: Dear friends: I have the great honor today to welcome one of the leading political figures and scholars in the world, Lyndon LaRouche, who is simultaneously the founder of a leading tendency of economic thought, which has come to be called physical economy. He is Editor-in-Chief of a journal, in which Mr. LaRouche’s articles are constantly published. It is also a very important feature of LaRouche’s scientific work, that he constantly ties it in to the pressing practical problems of our world today.

A striking example of this was the event in our State Duma, where LaRouche spoke [June 29, 2001], which had a great resonance. We are expecting Dr. Sergei Glazyev, the chairman of the [Economics] committee of the Duma, to be here today. We have snowy weather today, and he called me to say that he is sitting in traffic in the snow.

Therefore, I would like to invite Mr. LaRouche to share with us his views on the current world crisis, the economic crisis, which has afflicted the entire world.



Lyndon and Helga LaRouche tour the Vernadsky State Geological Museum of the Russian Academy of Sciences. With them are museum officials Dr. G.V. Naumov (left) and Dr. Sergei Cherkasov (right)—with a bust of the great Ukrainian-Russian scientist V.I. Vernadsky.

Lyndon LaRouche: This is a wonderful crisis. It's a wonderful scientific event. The first thing it does, as a benefit—it will cure constipation. This is not a depression. It is what Rosa Luxemburg described, at the beginning of the last century, as a general breakdown crisis.

Look at the post-war period, just to situate how, since 1945, this crisis developed. Under President Franklin Roosevelt, the policies of the United States for the post-war period had been chiefly the following: that Roosevelt warned Churchill, repeatedly—Prime Minister Churchill—that the world was no longer going to tolerate “British 18th-Century methods.” Which means the economic methods of the old British Haileybury School. And it also meant an instant decolonization at the end of the war.

The implication of Roosevelt's negotiations with Stalin, and with Chiang Kai-shek in particular, were part of this pattern for using the United States' power, to force the Portuguese, the Dutch, the British, and the French to give up their colonies immediately at the end of the war.

The complementary feature of this policy was what was called the Bretton Woods agreements, which were intended, originally, to be worldwide agreements, not restricted to a few nations. The included feature of this would be a fixed-exchange-rate system, using a gold-reserve standard—not a gold standard, but a gold-reserve standard. And the function of this system would be, largely, not only to rebuild the war-torn countries of Europe, but also to launch a general economic development, and assist people in this development, in the newly freed colonial or semi-colonial regions.

With the death of Roosevelt, within 48 hours, most of these policies had been sabotaged. Shortly after that, the first nuclear bombing was done, of Japan, as a way of starting the

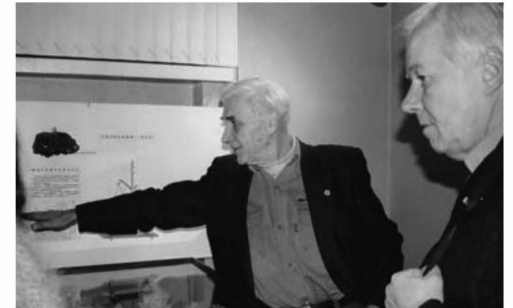
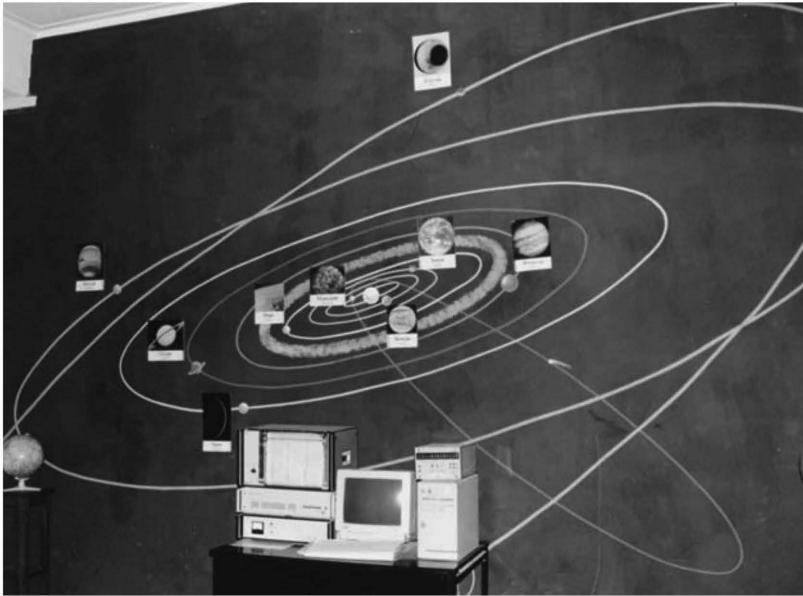
conflict of the United States, Britain, and the Soviet Union. But some of the Bretton Woods system functioned. Largely as a result of this, there was a rebuilding of Western Europe, or most of it. There were significant economic and social benefits throughout most of the Americas. And Japan was rebuilt.

This came to an end with the death of President Kennedy. The years 1962-65 are the turning-point in the entire period since the end of World War II. The [Cuban] missiles crisis, of course, was the center of those changes, which led, eventually, in the 1972 period, to a kind of managed conflict between the Anglo-American forces and the Soviet forces.

Turning-Point Of 1963-71

Just to get a picture of what these changes were: You had the first attempt to assassinate de Gaulle, in 1962. In 1963, before the assassination of Kennedy, you had the coup in Great Britain which ousted Prime Minister Macmillan. You had a wave of strategically significant assassinations and changes in government. You had the launching of the U.S. Indochina War. You had the worst government of the United Kingdom, probably, in the 20th Century—the first Wilson government of the United Kingdom. Wilson was so bad, that you might call him the President Jimmy Carter of Great Britain.

About 1966, you had a phase-change in United States politics. You had a Nixon, who was already a broken man, running for President, in alliance with a racist organization, the Ku Klux Klan—the notorious Ku Klux Klan of the United States. And the Nixon Administration, apart from being racist, was committed to a radical version of the policies of the Mont Pelerin Society.



Dr. G.V. Naumov gives the LaRouches a tour of the Vernadsky State Geological Museum, including exhibits on geology, magnetism, and the Solar System.



The change in policy which became clear in the 1966-67 budget of the United States, was a shift to an anti-scientific, post-industrial society. And that accelerated from that point on. This was accompanied by a cultural paradigm-shift in the United States, and in Europe: the so-called rock-drug-sex counterculture, popular among university youth, which spread later to a younger generation.

So, in 1971, of course, came the crucial change: the change to a floating-exchange-rate monetary system, which began Hell for many developing countries in particular. For countries which are poorer, in particular—or for any country—long-term lending, and long-term investment for capital improvements (by long-term, I mean, essentially, ten years or longer), require interest rates, really not much in excess of 1-2% simple interest. If you have a floating exchange rate, this becomes impossible, because if currencies fluctuate, then

lenders will demand changes to compensate for the loss of income on debt-service. This is particularly the case if the London financial market, which still, to this day, dominates the world financial system, is manipulating international exchange markets.

For example, take the famous case I've often cited: If you take the debt of the countries of Central and South America, every penny that these countries ever incurred, by virtue of actually receiving credit, has been more than paid by all of these countries, to the present day. If you look at the total debt today, mostly all of it is fictitious debt, created by the IMF [International Monetary Fund]. The London market would put a currency under attack; the currency would fall on the speculative market; then the United States and other governments would put pressure on the government, to "call in the IMF." And the IMF would put as a conditionality, "You must

reduce the value of your currency.” And you must then create an additional book-debt—fictitious debt—to compensate the creditors for what they have lost, in terms of future payments, on the basis of the devaluation of the currency.

From that period on—from 1971 on, the United States and other countries began to destroy the entire protectionist and social-support structure which had been built up in the post-war period.

This was aggravated by what happened under Carter—or shall we say, Mr. Brzezinski’s stooge, President Jimmy Carter. Nuclear energy, which is absolutely essential to the progress of the modern economy in general, as an integral part of modern economy, was largely shut down in the United States, through a special services secret operation which shut down a nuclear reactor, and produced the terror which induced the changes in law. Real estate was ruined, agriculture began to be destroyed at that time. Deregulation of everything—of things that had to be regulated, such as public transportation, things of that sort.

It was the assessment of many leading people in the United States, on reflection, that Jimmy Carter, under Brzezinski’s direction, did more damage to the U.S. economy than any U.S. administration in the post-war period.

Bankrupt System Was Propped Up By Looting

These trends continued into 1989-91. At that point came the collapse of the Soviet system, and a phase-change occurred in a long process of decline of the world system. It’s important to know, as many of you know already, that the chief support for an otherwise failing and collapsing world Anglo-American system, was the looting of the former Soviet Union during the past ten years. When, in 1998, the limit had been reached on this speculative looting on a mass scale of the former Soviet Union—Russia, Ukraine, and so forth—the effect was that of a blood-sucking parasite whose host, whose victim, has run out of blood.

The 1998 GKO [Russian government bond] crisis was the breaking point.

Another factor was coming into play at the same time. The United States and Britain—or at least, the so-called financier interests of London, of New York City, of Boston, of Washington, D.C.; that is, the financial houses and their associated big law firms, which actually dominate the United States like a dictatorship—came up with the idea, in 1989, that with the collapse of the Soviet Union, they could set up an Anglo-American world empire. By destroying the sovereign nation-state as an institution, and instituting deregulation to prevent national economies from functioning as national economies, the impulse was the fantastic dream of creating a permanent world empire.

And of course, as we know, it didn’t work. But insane people often do not consider the consequences of their insanity. And if you look at the intellectual quality of the so-called elites, particularly the younger generations, in the United Kingdom, in Australia, New Zealand, in Canada, in the United

States itself, they represent almost a species which lacks the capability of maintaining its own survival.

Look at the present condition, especially since 1998. By all physical standards, the economies of Western Europe and the United States have been collapsing at an accelerating rate. At the same time, a financial bubble has built up, which is the greatest financial bubble in all history. It is John Law’s nightmare, repeated on a grand scale. The obtaining of yield, on a purely speculative value of purely worthless paper, or on an index—which is nothing—this pure gambling, on the derivatives market, has become the substitute for a physical economy.

Now, if you look around the world today, as a result, not only Argentina, but other countries, are now disintegrating as a result of these conditions. The United States is propped up by printing-press money, and by a Japan which is almost dying of carrying that load.

So we now have come, over the period 1998 to the present day, to the point of total collapse of a doomed system—a self-doomed system. The issues today are no longer those of economic interest, but of pure psychological interest. Just one strategic indication of this, which people in Russia have experienced: In about November of 1998, I was very happy, because Primakov had become the Prime Minister of Russia, and he had proposed as policy, what I considered the only sensible approach to the situation in Eurasia in general. He proposed, in New Delhi, publicly, the establishment of a “Strategic Triangle” of cooperation, between Russia and China, and also India.

By December of 1998, Primakov had been declared world public enemy number one, by the Anglo-American financier interests and the relevant think-tanks. Why? And India was the number-one enemy. Why? Because it would work. You take a bankrupt Western Europe—by which I mean Germany, France, Italy, and so forth—whose bankruptcy is reflected chiefly by the lack of the usual foreign markets on which they depended in the past—as a matter of fact, the only area of Germany’s exports which is keeping the country alive today, is Russia, China, and India; and the only growth of any significance, is Russia and China. Southeast Asia and China have lost their markets in the United States. The coastal areas of China, which were the areas of export of cheap-labor products to the United States, will have to accept a 40-50-60% reduction in their exports to the United States, for the indefinite future.

National Survival Today

The wiser circles in China, typified by President Jiang Zemin, are pushing for the internal market development—that is, internal economic infrastructure development—as the alternative to a collapsing U.S. market.

But in both the cases of China or India, they could not survive on their own. The population growth has risen far beyond the rate of adequate improvement in internal use of technologies. Without a very large infusion of technological

assistance into the interior of China, and comparable cooperation with India, the two largest countries of this planet could not remain stable for very long. The idea of finding long-term bilateral agreements among the countries of East, Southeast, and South Asia, is just a pipe dream. You can not do it on a bilateral basis. They have too many conflicts among them.

China-Japan; China-Korea; China-India; these are not durable bilateral relations at this point in human existence. But all of the countries of continental Eurasia have one common interest, and that is their interest in economic development and growth.

Only if you had a multilateral agreement to that effect, could you overcome the obstacles represented by bilateral conflicts.

For example, for Asia: long-range water development and management projects. Major transportation corridor projects — not just railroads, but transportation corridor projects. High-density energy generation within the local regions, not by importing gasoline over long distances. A rational form of new urban-rural centers, developing as pockets in areas of development.

These kinds of investments require the creation of credit and related agreements, over periods of approximately a generation or longer. Though much of the work of development can be done by private entrepreneurs, the creation of the market in which the entrepreneurs will operate, depends upon long-term agreements among governments, concerning long-term credit arrangements.

After all, why would anybody have hated Primakov for what he proposed? *Because it would work.* And we have how it would work. The sovereign nation-state has the ability to create credit. . . . Of course, naturally, the majority of the governments taking part in such cooperation, will have to put the International Monetary Fund through formal bankruptcy reorganization. It would have to be an emergency bankruptcy reorganization, which is why the model that Roosevelt had intended is so important — because you must have a precedent for something done in an emergency. It means applying the principle of the general welfare, which we sometimes call “Chapter 11” in U.S. bankruptcy law, by governments, to the general problem. ([Aside to translator:] It is a law which was established as natural law in Europe, in the 15th Century, by the various groups at that time.) So, in that situation, in which we have a system which is in the process of terminal collapse — . We are in the death agony: Whether the collapse occurs as a Christmas gift, or whether it comes a bit later, is a matter of small difference. The sooner it comes, the better.

But the problem is, of course, as was in a number of situations before the 1930s depression, is: The politicians generally are not intelligent enough to make those kinds of decisions until their pants are burning. So, as they say, the intelligentsia has to prepare the decision which the politicians will sign when they become sufficiently desperate to do so.

I shall conclude this presentation with this observation:

Every problem that the world is concerned about today — including the recent events of Sept. 11th, their aftermath, and so forth — are reflections of what has happened to the economy, and the present state of the economy. Desperation is striking leading circles, in one way or another. Various countries — those of Europe, or Asia, generally — say, “What can we do about this? We don’t run the world; we’re only the colonies.” The craziest people in the United States, who have a good deal of the power, say, “Let’s kill everybody. Let’s start religious wars,” like Brzezinski proposes. Saner people, such as Secretary Powell in the United States, and some people in Britain, say, “This is lunacy!” People in the United States, who are supposed to have great power behind the scenes, tell me, “You do it.”

I’ll give you an example. I don’t know if you saw C-Span last night. There was a live press conference with Secretary of State Powell, and the first question came from a reporter who is associated with me; he’s part of our press service. Now, the first question asked of either the President, or the Secretary of State in a press conference, is always *pre-cleared* with the press office before the question is placed. So, they knew we had the information, and we asked the question — my friend, the reporter, asked the question — and, the Secretary of State then gave the answer he wished to have the opportunity to give. This was on the question of Israeli spying involved in matters bearing on the events of Sept. 11th. The Secretary of State, by using the question of my friend, was trying to discourage a worse than already-ongoing war in the Middle East, in Palestine.

That is only typical of some of the situations I run into, where people expect *me*, with my modest situation, and political power around the world, to be able to sometimes intervene in these crises, because they recognize — to their credit — they recognize, how serious the situation is. We are in an extremely serious situation, in which people who are patently insane, with their rage over their desperation in their situation, are prepared to do desperate things, and people who should be stronger, are not effectively resisting these escapades. So it is an extremely dangerous situation.

And thus, at this point, we should recognize that what is happening in Afghanistan, and other things, in the Middle East, may each have their own characteristics — contributing factors — but the essence of the situation, in all cases: We are looking at, potentially, the third great geopolitical war. Like the war that started with the Japan invasion of China in 1894 through 1917.

I would just add one final point. Therefore, the profession of an economist, who is a serious economist, becomes very serious under these conditions. Weak governments will not make the necessary decisions, unless they are thoroughly convinced by the work of professionals who walk them through, step-by-step, the kinds of issues we’re talking about, and showing them that we have in view an alternative that will actually work. We have to give these fellows a new conception of economy, and make them understand it.



Academician Dr. Dmitri Lvov (left) hosted the seminar at the Central Mathematical Economics Institute. "Russia is an exact mirror reflection of what is happening in the world," he said. "We should be thinking about being guided by different criteria."

Dialogue With LaRouche

Lvov: Do we have some questions?

Q: The title of your lecture is "The Global Economic And Financial Crisis And The Strategic Role Of Russia." Could you not elaborate more about the role of Russia, and what Russia could do?

LaRouche: I thought it was implicit. I've written a good deal on the subject of Russia's role. Russia is a Eurasian nation, which has not yet accepted the idea that it's a defeated nation, as a cultural impulse. Therefore, Russia has the capability of mobilizing itself to play a leading role, where other nations will say, "We're only colonies, we can not make such proposals."

It is both objective, and psychological. I've been a virtual ally, and a supporting member, of the Non-Aligned Nations Movement for the past 55 years, and I can tell you that my clientele are very good people, often. But, they are unwilling to step up to the fore, in making decisions, and they don't think they have the authority to do it.

If you take the buried scientific capabilities of Russia, the scientific capabilities which are not now being fully utilized, combine that with the character of Russia as a Eurasian nation, and then look at Central and North Asia, the great concentration of mineral and other resources, which are unusable because of the lack of infrastructure development, this means that this is one of the great undertakings of this planet. We can not simply rip these resources out of the ground and export them at cheap prices. You must have the people of Kazakstan and Russia developing these resources.

The future of all Eurasia depends upon the contribution from this development.

Lvov: Thank you. You know, this has been a very interesting report. It seems to me that it exposes a wide range of

problems, which have arisen on the world scene today. Whether we like it or not, it is quite apparent that the world has entered a fragile state of disequilibrium. Therefore, the problems raised here by Mr. LaRouche seem to me to be very important and urgent.

It seems to me that the problems experienced today by Russia are on a par with the problems of the United States, England, France, or any other country. All of us, together, are experiencing a global crisis of world civilization. There is an enormous redistribution of risk under way. Therefore, we must pay attention to historical experience, including that historical experience which our country possesses, that difficult experience which we accumulated during the past 100 years. It may be located in the fact that we have not yet adequately explained how, in a relatively short period of historical time, Russia became the relatively weak link, in the face of the crisis transformation taking place in the world.

The revolutions of 1905 and 1917 would seem to have marked a new transition, to a new social system, and yet, suddenly, after a short period of 70-some years, there came another transformation—the shift from socialism to capitalism. Now, ten years have passed since the beginning of the so-called "transformational reforms" in Russia. Is this not enough time, to think through what happened to us?

What is happening in Russia today? I would put it this way: In Russia today, everything is happening, and nothing. The vast assimilation, like the Sahara Desert, of the so-called experience of liberal reforms in the world. And now, we are just beginning to discover that this experience is composed of ozone holes. These holes are formed in the depths, along two axes. The first, is what Mr. LaRouche said about a reform of the economy, carried out without any regard for the main subject of economy—human beings. Man and his requirements remained outside the scope of these reforms.

The second problem, to which Mr. LaRouche also constantly draws attention, is the problem of financial pyramids

and financial bubbles. In this respect, I would like to remind you of what happened in 1972. At that time, when we still had Bretton Woods, the representatives of England, France, the U.S.A., and others gathered, concerning the payment of debt obligations with the so-called gold-standard dollar. I think you would agree that the end of this, in 1972, was the first major default in the world financial system. As a result, a new system of relations took shape in the world—the system we are living under today.

If we look at one of the parameters of monetary regulation on the world financial markets, namely, the ratio of total indebtedness to money supply + total domestic debt, we find that in Russia today, this ratio is 47%. In the past month and a half, it has declined by five percentage points, which had to do with interventions made in support of the exchange rate of the ruble.

For years, we understood financial stabilization as meaning the issuance of cash, in strict correspondence to Central Bank gold and currency reserves. After 1972, however, America demonstrated for us quite a different policy. At the present time, only 4¢ of every dollar actually has any backing. The entire world, however, is flooded with these 4%-backed dollars, and the world is functioning. At the same time, this raises the natural risk factor. This system is completely devoid of real material backing, which essentially works on its own behalf, creating one of the fundamental causes of the current crisis, which today we call “terrorism,” and so forth.

I shall not expand on this at length, but I would like to say that I am familiar with what Mr. LaRouche says about this, as with his other work. In conclusion, I would like just to draw your attention to the following circumstance: Next year, as you know, the world public, and governments, will be involved in the so-called “Rio Plus 10” activities [the tenth anniversary of the UN ecology summit in Rio]. The system of global balance will be the subject of a new international congress of nations, at which new resolutions on stabilization, economic development, and sustainable development will be discussed. I believe we may expect another upwards spiral of completely unfounded populist, propagandistic documents, which will involve no analysis of any profound processes of world social development.

As I listen to LaRouche today, I can’t help but ask this question: Do we not, after all, already have here a well-developed, mature idea, of what the world should look like, with a system that would block the global crisis of humanity? The time has come to formulate these qualitative parameters, as we see them, of a society that proclaims the necessary social guarantees, a society that will write on its banner the principles for a rational utilization of what we call the planet’s “assimilation potential.” Then, finally, we shall say what kind of financial system we should have, linked to the real sector. In Mr. LaRouche’s terms, this is “physical economy.” It should be developed not for the sake of speculation, or for money as such, but in order to build bridges among nations and develop science and technology. That’s what is impor-



Dr. Sergei Glazyev, chairman of the Economics Committee of the State Duma: “I hope that [LaRouche’s] warnings and analysis will be listened to in Russia, not only among scientists, but by those who are in a position to make decisions.”

tant. But we, to a significant extent, conduct our discussions and teach our students according to what today seems to me to be a false paradigm.

Otherwise, the world is becoming extinct. We have enormous epidemics. Sixty-seven percent of the world’s population enjoys only 4.8% of world GDP. I don’t know if Lyndon LaRouche is aware, for example, of how things are with us. Reforms are all very well, with stabilization of the financial markets, but if things continue as they have been, the Russian population in mid-century will have shrunk by at least 45 million persons, below what it is today. So, why are we doing all these things? Why have reforms, why have liberalization, if there are not going to be any people? And Russia is an exact mirror reflection of what is happening in the world. We should be thinking about being guided by different criteria.

We have assembled here at one of our leading institutes. Economics: Formally, I am the leader of the Economics Section of the Russian Academy of Sciences. And I would just like to express this concern: I feel very uncomfortable about the question of what the science of economics is. Is it what we have discussed here with Mr. LaRouche? Is it something different—with a *moral* component? We find today, that a whole array of models and postulates, which an educated person learns, suffers from a flaw that is, in my opinion, an essential one. The significant premises of these models do not stand up to criticism. They are very remote from real life.