

## Russia's Glazyev: To Stop War, Create New Monetary System

by Rachel Douglas

As the war in Iraq unfolded with shocking destruction of that country, Russian political figure and economist Sergei Glazyev took to the air waves with a bold appeal to nations opposing the invasion: Act now, to create a new monetary system. Glazyev's initiative is potentially of decisive importance for the Russian domestic political scene, as well as for shaping Russia's international policy in the wake of the Iraq war.

A corresponding member of the Russian Academy of Sciences and member of the State Duma (parliament), Glazyev has a decade-long record of opposition to the destructive policies of the existing international financial institutions and the private interests behind them. His 1998 book on the implementation of liberal economics in Russia is titled *Genocide*. It was Glazyev, who in June 2001 invited Lyndon LaRouche as the keynote witness at special State Duma hearings on the topic of protecting national economies under conditions of global economic breakdown. On several occasions, Glazyev has been summoned, together with a group of senior members of the Academy of Sciences, to brief President Vladimir Putin on ways in which Russian economic policy could be changed in the national interest.

Last year, Glazyev surprised the Russian political establishment by running a strong third in the election for Krasnoyarsk governor, where he campaigned on a program to restore economic sovereignty and industrial growth in Russia. Glazyev continues to receive major attention from the Russian media, as the Communist Party—on whose slate he runs, although he is not a member—is polling 31% in surveys of popular support, as against 21% for United Russia (“Yedro”), the so-called “party of power.” Parliamentary elections are coming up in December.

One of Glazyev's several media interviews during the Iraq war occurred on April 2 on Russian TV Channel 3. Glazyev rejected the notion, widely believed in Russia, that

“cheap oil” was the goal of the Anglo-American attack on Iraq. Rather, he said, the fundamental issue is the crisis of the global financial system: In Glazyev's terms, “the war is being waged in order to preserve the dollar's role as world reserve currency.”

Asked if Russia should dump the dollar, Glazyev replied that Russia's gold and currency reserves, albeit substantial and growing, “are insufficient to shake the unjust architecture of the world financial system.” There are, however, steps to take. He proposed that Russia “meet Europe half way,” by shifting from the dollar into euros and rubles; Russia's trade with Europe, at least, need not be denominated in dollars. Also, Russia could agree with other Commonwealth of Independent States (CIS) members, and with China and India, to denominate their trade in national currencies, instead of the dollar. If the ruble were used, he pointed out, the “revenue from cash issues” could translate into the equivalent of over \$20 billion, which could be used to finance the real economy in Russia.

Glazyev's most dramatic statement in the interview echoed the Schiller Institute's Bad Schwalbach Declaration, issued March 23. He said that countries using the dollar today are, in effect, financing the war against Iraq. “Therefore, if we want to stop the war, we should simply call on the countries that oppose this aggression, to agree to have their central banks jointly pose the question of shifting to a new world monetary system.” This would not mean “burying the dollar,” Glazyev elaborated, but undoing the U.S. actions of August 1971, which “terminated the dollar's convertibility into gold and began to impose [it] on the entire world by force.”

Sergei Glazyev made available to *EIR* for publication here, a longer elaboration of his analysis, valuable not only for the proposals it contains, but also as a window on how the latest U.S. actions are viewed in leading Russian patriotic circles.



*Dr. Sergei Glazyev (center) conducted a press conference at the Moscow Press Center, before Lyndon LaRouche (second from left) addressed the Duma's Economics Committee which Glazyev then chaired.*

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## Documentation

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### Economic Significance Of the U.S. Aggression

*Here are translated excerpts from Dr. Glazyev's article. Some subheads have been added.*

One widespread explanation for the U.S. attack on Iraq is that it is an attempt to lower oil prices, which would seem to pose a threat to U.S. economic prosperity. This analysis does not stand up to criticism. The United States could have controlled the supply of Iraqi oil to the world market without any military action, by using United Nations sanctions procedures. They could have relaxed sanctions at any time, or even ended all restrictions on the export of Iraqi oil, in order to bring world oil prices down. But far from everyone in the United States wants lower oil prices. Very influential circles, including the petroleum industry-linked Bush family and the entire [Republican] party in power today, are rather interested in high oil prices.

There is a belief that high oil prices undercut economic growth in the developed oil-consuming countries, due to raising the costs and reducing the profitability of production. Moreover, the inevitable rise of fuel prices raises the cost of living. This is the case, but only if oil prices exceed a certain sensitivity threshold for the oil-consuming sectors. The scien-

tific term for this level is "marginal cost of consumption." Above it, consumers of oil begin to experience losses and have to scale back production, pulling the economy into depression.

The marginal cost of consumption of any resource is defined by the technologies that dominate the sectors consuming that resource. On average, the marginal cost of consumption of oil is calculated at \$40/barrel for the technological development phase prevailing in developed nations today. If oil prices rise above that level, the economy is unable to adapt, within the limits of today's technological development phase; losses begin to surpass revenues, and production shuts down. . . .

But even had the Americans' intention been to block oil prices from rising above the marginal level, that would not explain their resort to military aggression. After all, the [Organization of Petroleum Exporting Countries] OPEC member countries had repeatedly stated their readiness to return prices to a stable level of around \$25/barrel. . . .

The United States had many means available to influence oil prices using political or economic pressure on producer nations. Russian oil industrialists, in particular, had declared their readiness to enter into a separate agreement with the United States, outside of OPEC. The U.S. leadership did not make use of such instruments of pressure, but, quite the contrary, by their actions provoked an uncontrolled rise of oil prices.

First, OPEC's signals of readiness to restrain oil prices to a level acceptable for consumers went unanswered. Second, pro-American politicians destabilized the situation in Venezuela, which consequently practically stopped supplying oil to the world market. . . .

Third, the attack on Iraq was preceded by a lengthy period of heating up international tensions, which provoked a sense of panic on oil markets. . . . Fourth, when seeking support from the Congress for this military adventure, the President of the United States said that one of his goals was to reduce the U.S. economy's dependence on imported oil, which completely contradicts the notion of a war for cheap imported oil.

Fifth, countries that suffer far more from high oil prices than the U.S.A. or Great Britain do, declined to join the Anglo-American coalition. . . .

### **To 'Shock and Awe' the World**

Thus, the notion of a war for cheap oil is unsupported. Furthermore, careful analysis shows that U.S. actions achieved a rise in oil prices, rather than a reduction. Such were the economic consequences of the American aggression. Skeptics might reply that this is only in the short term, whereas in the long run prices will supposedly stabilize. To that I can answer with the well-known dictum, "In the long run we all shall die." It was none other than the United States that provoked the jump in oil prices, by escalating international tension.

What is the United States after, with this aggression? If not lower oil prices, then perhaps the goal really is to get rid of Saddam? But then we would have to admit that America is being run by crazy people, since to sacrifice hundreds of one's own soldiers and thousands of innocent Arabs for the sake of killing one man, and spend tens of billions of dollars on it, is clinical insanity.

Unfortunately, we don't know who planned this incomprehensible war with the strange code-name of "shock and awe." It is possible that the purpose was to shock the entire world community, making America's rivals quake. For the U.S. leaders are building a new Roman Empire, in which they imagine themselves to be the patricians, while everybody else is either plebeians (their coalition allies) or barbarians (those opposed). By unleashing this aggression, in violation of all the standards of international law, against the United Nations and even NATO, the U.S. leadership let it be known that anybody who acts against or impedes their interests will be subject to physical annihilation. The world should accept the fact that the Americans can do anything they want, while the rivals of U.S. capital should put their tail between their legs and relinquish whatever markets the Yankees are interested in. Otherwise, American corporate interests will be defended with an armed stick, which can strike at any time, in any part of the globe.

This is, of course, a weighty reason. But it is not the main one. After all, the U.S.A. had already demonstrated its ability to flout international law many times over. Their secret services, without any scruples, have carried out assassination attempts and even killed politicians for whom they had no use, and organized military coups in other countries. They had many opportunities to do the same thing in Iraq. Why rile

the whole world, when the same goal could be accomplished, using third parties and taking no responsibility? . . .

Serious undertakings are not done this way. Either the current American leaders are crazed, half-educated followers of the raving Brzezinski, or there are other, more weighty reasons. I don't think the U.S. establishment is so stupid as to embark upon adventures that are known in advance to be losing and expensive propositions. . . .

### **A War for the Printing Press**

With this war, the U.S.A. is trying to address the critical problem of maintaining its monopoly as issuer of the global currency, which the U.S. dollar is today. Since 1971, when the American government ceased exchanging dollars for gold, they have forced the whole world to use their national currency as the world currency. This has multiplied their power many times over, since they have been able to appropriate revenue from cash issues on a world scale. More dollars are issued for circulation abroad, than for internal use. Since the dollar supply is 80% created against U.S. government bonds, this means that anybody using the dollar is effectively financing the U.S. budget free of charge. Therefore the Americans can wage expensive wars and terrorize the whole world; and everybody who holds or uses the dollar is paying for these "services."

The Americans are currently in a very difficult situation. Thirty years of printing dollars without restraint have created a global financial pyramid. Only 4% of the dollars in circulation are backed by U.S. gold and currency reserves. The currency's stability is entirely dependent upon the demand for dollars. Suffice it for someone to initiate the large-scale dumping of dollars, and an avalanche-style collapse of the dollar-based world financial and monetary system could begin, bringing with it the end of American economic dominance. It would immediately become evident that the United States owes the rest of the world over \$30 trillion, including around \$5 trillion owed by the U.S. Federal government directly. Under such a scenario, the inevitable bankruptcy of the U.S.A. would also create a difficult situation for all countries holding their reserves in dollars.

Having drawn the whole world into servicing the dollar-denominated financial pyramid, the United States cannot stop this process. Because they must constantly generate demand for the dollar in order to support it, they push others to endlessly refinance their old loans and take out new ones. As the financial pyramid expands, it becomes more and more difficult to do this, since in order for the dollar to be stable, the demand for dollars must grow more rapidly than . . . U.S. indebtedness.

With the world economy's entry into a structural depression, caused by the shift in technological development phases, the situation becomes even more severe, due to the contraction of demand for credit. Declining profits, as the growth possibilities of traditional types of production are exhausted, lead to crises on the financial markets. Losses on the U.S.

stock market during the past four years exceeded \$7 trillion, with similar processes under way in Europe and Japan. The volume of foot-loose dollars is growing worldwide, and they could descend on the U.S. market at any moment.

The jump in oil prices, which are denominated in dollars, temporarily tied up part of the surplus dollars. Signaling a structural change in the economy, it should lead to expanded demand for credits on the part of industry, which needs to assimilate new technologies and reduce its consumption of energy. The process of creating a new technological development phase will mean a growing demand for credits for new types of manufactures. But this takes time. Until a structural transformation of the world economy picks up steam and new centers of rapid economic growth emerge, they have to provide every possible incentive to increase the demand for dollars and block attempts at any large-scale dumping of dollars. That is why it suits the Americans to escalate international tension! . . .

Under the pretext of a crusade against international terrorism, the U.S.A. froze large dollar assets, belonging to Arab organizations and individuals. Building up its geopolitical influence on the wave of escalated international tension, the U.S.A. blocked the initiative by Asian countries to create a new international monetary fund, using their national currencies.

Finally, with the war in Iraq ratcheting international tension up another notch, the U.S.A. obtained yet another instrument with which to block attempts to dump the dollar—freezing the accounts of whole nations. Also, military spending is denominated in dollars, which promotes demand for this currency.

Thus, U.S. actions are quite logical: In order to avert their own bankruptcy, the weight of the global dollar pyramid they have constructed forces them to provoke ever new upward spirals of international tension. . . . They have defined their interests as worldwide. And they will defend them in every corner of the globe, declaring any country that attempts to escape from the American financial pyramid and the dollar domain to be criminal and terrorist.

Of course, such a course of events is not in the interest of Russia, nor any other country that would be independent. All the more so, insofar as the scale of the unsupported dollar pyramid is such that it becomes more expensive by the year to maintain it. And there is no guarantee that it won't collapse one fine day, whereupon everybody who uses dollars will lose a substantial portion of their savings. . . .

## How to Stop the War

1) If the world community wants to rein in the aggressor and protect itself from the consequences of an endless fanning of international tension through the unleashing of local wars provoked by the U.S.A., it should abandon the use of the dollar as a world currency. It will suffice for the central banks of interested countries to reach agreement.

If critical mass is reached in the dumping of dollars (for

which even a few major nations, or even just all the Arab countries, would be enough), the American financial system will inevitably crash. The dollar will be devalued, dollars will be dumped worldwide, ultimately leading to the bankruptcy of the U.S.A. and making it impossible to continue the war in Iraq, or to dictate to other countries.

The cost will be losses for all holders of dollars, and the destabilization of the entire international financial system. The world community will have to institute a fundamentally new international financial and monetary system on an emergency basis, based on national currencies in proportion to the weight of each country in world economic turnover. Otherwise, they could introduce a new world currency, supported by international financial institutions and with restrictions, precluding its use for the special interests of one country or any group of countries. Russia could become a leader and organizer of the process of creating a new international financial and monetary architecture.

2) In any event, Russia should free itself from dollar dependency, sharply decreasing the share of dollars in its currency reserves. Russia should stop linking its own cash issues to the growth of foreign currency reserves, rather guiding monetary policy by the productive sector's demand for money. It should create mechanisms for financing investment in new technologies. It should reach agreement with the European Union, the CIS and China, on using national currencies in foreign economic accounting, and seek external convertibility of the ruble.

3) We shall not forget that the American President, while motivating the need for armed aggression, surprised many by citing the need to reduce U.S. dependency on imported oil and shift to new fuels, including hydrogen as a fuel. . . .

In the next year or two we have a unique chance to make an economic leap to a trajectory of rapid and stable economic growth on the basis of advanced technologies. In order to take advantage of these possibilities, we must restore and utilize in a literate fashion the state monopoly on the money supply, while returning to the state the right to manage rental income [from natural resources exploitation] and direct it into development, creating favorable conditions for a rapid growth of the next technological development phase. Then Russia will become a center of attraction for capital from all over the world, while ceasing to trade its national wealth just in order to keep its pants pulled up. Russia will restore the full range of functions to its national currency, making the ruble a full-fledged international currency, after which it will be possible to remove restrictions on capital flows without experiencing losses. Russia will preserve its independence and regain a worthy place among world leaders. . . .

One would like to believe that reason will triumph, and the Russian President will finally make a choice in favor of the national interest, replacing today's incompetent government with real professionals. They would be capable of accomplishing an economic miracle for the country as a whole, not just for a few families vested with power.