

Russian Economist Sees Imminent Collapse of World Financial Pyramid

by Rachel Douglas

The Russian weekly *Ekonomicheskaya Gazeta*, which is read in academic, Parliamentary, and other political circles, has published an interview with Prof. G.G. Pirogov, on the demise of the speculation-based world financial system. As an integral part of his discussion of ways for Russia to survive that crash, Professor Pirogov brought Lyndon LaRouche's insights and proposals once again to the pages of *Ekonomicheskaya Gazeta*, which had regularly published them through the writings of the late Prof. Taras Muranivsky.

Professor Pirogov is well known as an economist at the Russian Academy of Sciences Institute of Comparative Political Science, and an organizer of seminars there for economists and physical scientists. At one such seminar, hosted by Professor Pirogov in February 1999, Schiller Institute President Muranivsky presented his paper, "The Third Phase of the World Systemic Crisis," which was published in *Ekonomicheskaya Gazeta* that month.

Professor Pirogov's lengthy interview in *Ekonomicheskaya Gazeta* No. 37 (Sept. 14) began with a detailed exposition of how today's planetary bubble was inflated. Its growth, he wrote, has been accompanied by "sharply increased stratification of society during the past two decades. . . . The rich are becoming richer, while 'new poor' come on the scene. A 'two-thirds' society emerged somewhere in the 1970s. . . . Two-thirds prosper, and one-third is outcast. They are the chronically unemployed, homeless people, and foreign guest workers, who are exploited. In Germany, for instance, there are 7 million Turks. . . . In America, real wages have been declining for 20 years, while GDP doubled. Although at first American households compensated for this by the wives going to work, today household income, including the wives' earnings, is declining."

"Does that mean someone is sucking off the money?" asked writer Yu. Chirkov, who conducted the interview. "Yes," said Professor Pirogov, "the upper 20%, the upper 10%, the upper 5%, or 1%—the higher you go, the more. In the U.S.A., 64% of the growth of incomes during the past 20 years has gone to the upper 10%. The speculative sector has grown tremendously. That's where the money goes. Modern technology has created new conditions for speculation. Global capital flies all around the world, mostly short-term capital. . . . There is a continuous process of giant corporations merging. In the 1960s and 1970s there was some revival of small business, but now everything has changed, everything is being swallowed up—and this is directly connected with

speculative operations. Furthermore, these deals are not even paid for with real dollars. There are special 'leverage operations.' "

Professor Pirogov compared this process to the notorious MMM financial pyramid scheme of Sergei Mavrodi, in early-1990s Russia.

"Money is borrowed against some securities, the controlling share of some corporation is acquired, and then they start to asset-strip it to cover the debts. Or, they issue so-called 'junk bonds,' circulate them, and then, when the deal is done they 'drop' the price and the same giant corporations buy the bonds back for nothing. The entire process is wheeling and dealing through speculation. From these speculative operations arises 'quasi-money,' or derivatives—contracts that are in no way linked to the real circulation of goods, which are used as means of payment and yield huge incomes. The world financial pyramid is now dozens or hundreds of times greater than the volume of real money.

"The American economist and politician Lyndon LaRouche introduced the principle of 'physical economy,' where the real production of the economy is measured per capita of the population, per household, and per square kilometer of territory, but this is the physical net product—what is actually useful. It is indicative, that LaRouche's data show, for example, that the real sector is constantly shrinking in the U.S.A. and Europe. This is due both to the outflow of financial resources into the speculative sector, and to the shift of some production and capital into the developing countries. . . .

"Sometimes [the capital] exists only on paper or computer disks. What's more, there is an enormous recreation and entertainment sector, as well as the communications and information sectors, where it is generally hard to determine where you have a product, and where you have something harmful. It's rather like narcotics, because you now have TV systems, where somebody can get 500 channels at once. Does this really ensure good TV broadcasting? In effect, what's being produced is garbage. Yet, through these revenues and the revenues from speculative operations, the national income is inflated."

The Shift in Asia

Outlining what has happened with the "international trade triangle" among the United States, Japan, and the less-developed countries in Asia, Pirogov reported to Russian readers, that the previous relationships are breaking down. He laid out

the most important developments of Summer 2000 around the Asian Monetary Fund (AMF), which have otherwise barely been mentioned in the central Moscow press.

“Japan, South Korea, and the ASEAN [Association of Southeast Asian Nations] countries appear to have begun to implement serious attempts to tear free from the grip of the world financial pyramids. In particular, it is being proposed to establish an Asian Credit Agreement, with capital of \$30-50 billion, leading to the subsequent creation of an Asian Monetary Fund and a new Asian currency. These countries have combined currency reserves of over \$800 billion. Implementation of these measures will be a serious blow to the American currency monopoly. On Aug. 11, the Japanese [Central] Bank announced its imminent abandonment of the ‘zero interest rate’ policy. This raises a question mark over the financing of the U.S. trade deficit.”

Discussing the situation in the world monetary system, Professor Pirogov noted that “in effect, there is what LaRouche calls a ‘dollar-oil standard.’ . . . The dollar is very sensitive to oil, since oil transactions are denominated in dollars. . . . The current conjunction on the oil markets cannot be maintained for long. Therefore our prosperity, as both [President Vladimir] Putin and [Prime Minister Mikhail] Kasyanov acknowledge, is temporary. Anticipating the collapse of the financial pyramids, the transnational corporations, the world financial oligarchy, which long ago broke out of the bounds of individual countries and is concentrated, according to LaRouche, chiefly in the London financial market and the large banks on the U.S. East Coast, is investing its earnings from financial speculation, into the world’s natural wealth, trying to control them.”

This process applies to “all types of life-supporting strategic resources,” explained Professor Pirogov, “beginning with oil and natural gas. Next, the question is being raised of gaining the right to privately own water resources.”

Professor Pirogov traced “globalization” back to the practices of the British East India Company. In today’s version, “the dominant ideology is hedonism.”

The ‘Survivors’ Club’

Urging economists to abandon short-term prognostication of “minor zig-zags,” Professor Pirogov continued, “As far as what is in Russia’s interests, we ought to construct defenses, which could quarantine us from the general collapse, if necessary. LaRouche calls this ‘creating a Survivors’ Club,’ and believes that India could join it, China, and possibly Japan.”

He also recalled that “LaRouche thinks that now is the time to use powerful productive forces to improve the whole world, building infrastructure for the whole planet: to revive the ‘Great Silk Road,’ build transport arteries, and new, high-technology industry along them. A great number of people should be brought into this. But, that requires a social base and powerful political will, capable of improving the world. That is what is lacking. Instead, we see the striving for easy

profit and establishment of hegemony for a small circle of ‘chosen’ families in the countries of the ‘golden billion.’ ”

Pirogov concluded with the forecast of a financial crash: “Fictitious capital is continuing to grow rapidly, more and more divorced from real production. In the past ten years, the S&P 500 index has increased by 400%, while GDP was rather lower. The Nasdaq index of U.S. high-technology companies grew 1180% in three years. . . . Today, the fictitious capital of U.S. corporations is 250% of U.S. GDP. This ratio is double what it was in 1929, on the eve of the Great Depression. Furthermore, 49% of U.S. households have invested their savings into stock shares, in other words, into fictitious capital. . . . Moreover, these households are carrying consumer debt of \$1.428 trillion, with a much higher debt/income ratio than in 1929. . . . All of this creates the preconditions for a new financial crisis, deeper and more all-encompassing than the Asian Crisis of 1997-98. U.S. Federal Reserve Chairman Alan Greenspan spoke about this recently.

“Our economists are also discussing the possibility of a global financial crisis, as we saw in the *Delovoy Vtornik* (*Business Tuesday*) roundtable with N. Petrakov, M. Khazin, O. Grigoryev, and M. Delyagin, and in the *Ekspert* article by M. Khazin and O. Grigoryev. I think that the world financial pyramid will crash in the not so distant future.” The *Ekspert* article was reported on in “Russian Economists Forecast: World Economic Crisis To Explode in Autumn,” *EIR*, Aug. 25, 2000.

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

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