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From Panel 2 A Global Financial Crash, or New Credit Systems?

The Unfolding Global Financial Crash and Nascent New Institutions

Paul Gallagher, Economics Intelligence Director, *Executive Intelligence Review* (USA)

Craig Isherwood: Now joining us at the very late hour of about twenty past eleven from the United States, for our conference, is Paul Gallagher. He’s the Economics Intelligence Director for *Executive Intelligence Review*, and someone who has followed very closely, and written articles in the *EIR* on the subject of, the unfolding global financial crash. This will be an hour-long panel; we will take questions to Paul after Paul's presentation, and we'll go for an hour. The title of his presentation is “The Unfolding Global Financial Crash and the Nascent New Institutions.” Thank you Paul, welcome to our conference.

Paul Gallagher: Thank you. And thank you for that welcome. And welcome from near Washington in the United States, in the middle of the night.

I want to talk to you about the actual condition of the economies of the United States and Europe, the trans-Atlantic economies, and the tremendous contrast and antagonism with the developments that are now coming from the BRICS, particularly from the new credit institutions, and most particularly the AIIB and the related credit institutions that China is initiating along the Silk Road, the economic “Road and Belt”.

Nine months ago, I wrote an article in *EIR*, back in July of 2014, called “The U.S. Suicidal War on the New Chinese Infrastructure Bank”, and said at that time that President Obama's campaign against the Asian Infrastructure Investment Bank, or AIIB, would fail; and that the United States would be its only victim. That disastrous defeat for Obama has now occurred: he is completely isolated and defeated in his vindictive attempt to prevent this vital credit initiative for the world economy to come into being. But if Obama is now rejected and dumped through the 2016 campaign for the Presidency here in the United States, then the USA can still reclaim the principle of Hamiltonian economics, which is the actual offer that the Chinese are making through the AIIB, and which Obama attempted to destroy.

When I wrote that article in July of last year, I reported that the Obama Administration's moves to try to prevent co-operation with China's planned AIIB, were part of its commitment to a London-centred financial empire which is headed for another, more thorough collapse, and threatened world war as a result. Now the U.S. economy is again falling into recession, supposedly only its second since the 2008 financial crash, although Europe and Japan more frankly admit to having had at least three. The recovery of the U.S. economy has been a myth. It is an economy without high-wage employment, without capital investment, as I'll show, without any growth in crude productivity, with vanishing levels of real economic productivity, and long-vanished investment in modern infrastructure.

In the European economies, where mass unemployment has persisted under the single currency for over a decade, even the most basic lending by banks to businesses and households is continuing to decline, as we're speaking, every year in absolute terms. And these trans-Atlantic economies are joined at the hip by their megabanks, which have been sustained, and which have grown much larger since their crash, by Federal Reserve lending and money-printing, spread equally over both sides of the Atlantic.

Knowing that the trans-Atlantic financial system is crashing doesn't require picking out and identifying the precise crash trigger, or some so-called "black swan event", as leading British financial columnists are trying to do now, for example, in the sudden "loss of liquidity in the bond markets". The bank panic and financial crash of 2007-08 required the collapse of an immense real estate bubble, featuring $7 trillion in mortgage-backed securities in the USA alone, and $65 trillion in various forms of credit derivatives piled on top of them. The current financial crash doesn't require any such huge triggering events; the trans-Atlantic banks are much bigger and still more complex, but the trans-Atlantic economies have shrunken, they are poorer, they are less productive, and there are plenty of debt bubbles, not to mention $600 trillion in interest-rate derivatives, that are ready to finish them off.

The trans-Atlantic economies are being crushed by the Wall Street and London banks—including their control of government financial and even economic policy. Even compare GDP, which is grossly inflated by financial services and stock market bubbles, between 2007 and 2014: in Europe as a whole, the growth is roughly zero; in China the growth is roughly 68 per cent during those years; in India, 38 per cent. International institutions such as the OECD and the IMF agree, even in their consistently rose-coloured forecasts, that the average of economic growth around the world is falling, and is likely to be below 2 per cent in 2015, despite rapid growth in the biggest BRICS. In the United States, in recent weeks, the Atlanta Federal Reserve has dismayed the Wall Street press with the published tracking of its new, so-called real-time “GDPNow” measure. This showed U.S. growth going at an annual rate of 1.9 per cent in early February; at 1.2 per cent at the start of March; at 0.6 per cent on March 12th; at 0.3 per cent on March 18th; and at 0.2 per cent on March 25th. There are some broad measures which relate this to the real economy. For example:

- International agricultural equipment and sales fell by 2 per cent in 2012, rose by 4 per cent in 2013 and then fell by a whopping 7 per cent in 2014.
- Global shipping cargoes, other than oil, are falling in absolute terms.
- The Baltic Dry Index of shipping prices is 40 per cent of what it was in 2005 and 25 per cent of what it was in the year 2000, and it is continuing to fall.
- Almost all commodity prices are deeply depressed.

- The volume of world trade did not grow in 2012, contracted in 2013, has grown by about three per cent in 2014, and at the start of 2015 is contracting once again.
- The value in dollars of world trade has been declining since 2011.
- The value added in manufacturing for the world as a whole recovered after the crash to grow in 2010-12, but fell back to zero growth in 2013 and contracted in 2014, and in the European Union—26 countries—manufacturing value added is at the level of 2005.
- Official unemployment in the European Union nations as a whole has not gone below 11 per cent since the financial crash seven years ago; and real unemployment, including the underemployed and labour force drop-outs, is 19 per cent for the entire continent; youth unemployment is 26 per cent, officially, for the entire continent.
- Not only Greece's GDP is below the level of 2008 (it's 25 per cent below), but also those of Portugal, Spain, and Italy; Ireland's is only now equal to what it was seven years ago. All these countries have declining and emigrating populations.
- Mortgage loans for home purchases in Europe are below the total level of 15 years ago. Total loans, bank credit, are at the same absolute level as 2006, and if you exclude loans by banks to other banks, they are 6 per cent lower than they were at that time. Total bank credit has been falling by 100 billion euros per year.
- Bad debt is estimated at €2.5 trillion in the European banking system, out of €23 trillion total assets—more than 10 per cent. Yet, the derivatives exposure of Europe's banks—overwhelmingly in London, including Deutsche Bank—is about 400 trillion, or 10 per cent larger than in 2007. If the Eurozone starts to fall apart with a Greek default on bailout debt, which may happen imminently, derivatives bubbles *will* explode. And the ECB just yesterday issued an alert to all banks in Europe to inform the ECB—the European Central bank—about their "exposure to Austria", where the government had to withdraw guarantees for toxic bank debt, leading to two bank failures so far.
- In the United States, the amount of employment is increasing but Americans' average real wages and salaries (hourly and weekly) are continuing to fall. The hallmarks of household poverty—use of food stamps, charity food kitchens, homelessness—continue to increase. An average of 15 million Americans needed to participate in food assistance programs in 2001; 25 million in 2007; 48 million in 2014; and still growing.
- Real weekly wages and salaries of American workers are 20 per cent below the level of 1972, if a consistent measure of inflation is used over that whole span, and the income of households is unchanged over that 40 years, requiring almost one and a half persons per household to work for that income now, whereas just 1.1 persons worked for it then.

- More than half of American workers are now employed either part-time, as temps through contractors—temporary workers—or as freelance workers. Hourly pay has fallen; it is 10 per cent lower than 40 years ago, and 15 per cent lower than seven years ago, when Obama took office. This makes the so-called manufacturing recovery" claimed by the Obama Administration in the United States, a fraud. Ironically, the most detailed treatment showing this fraud was written by President Obama's own former "car czar"; that is, banker Stephen Rattner, who was in charge of Obama's claimed "recovery and revival of the auto industry" for three years. His recent article in *The Atlantic* was called, "What Manufacturing Recovery?"
- Electricity use per capita in the United States has fallen steadily since 2007, by a total of 15 per cent.
- Investment in infrastructure construction in the United States, which once was 3.2 per cent of annual GDP in the mid-1960s, has reached a nadir under Obama of 1.3 per cent of GDP. So there has been no creation of a buffer of credit, of new credit, productively invested, to counteract the devastating effects of the financial crash of 2007-08 and the following mass unemployment.
- There is a lack of capital investment throughout the U.S. economy since the effective elimination of Glass-Steagall—the Glass-Steagall principles, or regime—in the middle-1990s.

In the 13 years of the Bush and Obama Presidencies, the debt of U.S. corporations rose spectacularly, from a total of $5 trillion in 2001, to $7 trillion in 2006, $11 trillion in 2009, and $15 trillion at the end of 2014. Corporate after-tax profits did the same thing, rising from $500 billion in 2001 to $1.4 trillion in 2009, and then, after dropping in the crash for eighteen months, rose rapidly again to $1.75 trillion in 2014. But during the same period, corporations' capital expenditures essentially were unchanged, at about $900 billion per year. When one considers that depreciation of capital—business capital—is about $1.1 trillion a year in the United States, net capital investment in the entire economy is negative, and has been negative for a decade and a half. This is because 90 per cent of what the corporations borrow, and very much of their profit, has gone purely, directly back into the stock market: the constant buying back of their own shares to drive up their prices, or buying other corporations' shares in mergers and acquisitions; and paying out dividends to shareholders. In 2014, for example, the two figures I gave you just before, of corporate borrowing and corporate profits in 2014, added to perhaps $2.8 trillion in available capital which could be invested in capital expenditures, $2.35 trillion of the $2.8 trillion went directly into stock buybacks, and mergers and acquisitions—this doesn't even count dividend payments.

Such a corporate debt-stock buyback cycle has not characterised the U.S. economy since the 1920s before the bank and market crash of '29-'31 and the Great Depression. This kind of corporate debt-stock buyback cycle rules out any real productivity advances in the economy, and rules out *any* real productivity, and anything but continuously-declining real wages.

There is a fundamental measure of what is sitting on top of this declining real economy, and ready to collapse. This is the explosion of the [ratio of the] amount of debt—that is, total debt, including government at all levels, debt of corporations, debt of households; that total debt—to the gross domestic product; stated differently, the amount of new debt which is apparently needed to generate an additional amount of GDP, however productive or unproductive that GDP may be. In the United States' economy, that ratio was remarkably constant from the end of World War II until 1975, 30 years: it was 100 per cent, or one dollar of additional debt for one dollar of additional GDP. Then, rather suddenly, after the 1971-73 breakup of Bretton Woods, which LaRouche had forecast at the time, that ratio started to rise steadily. It grew to 250 per cent by 2000; then, following the destruction of the Glass-Steagall bank regulations, it leaped, in just five years, to 350 per cent in 2005. And then, despite the 2007-08 crash, and all the debt which was wiped out by it, the ratio continued to grow and reached approximately 400 per cent in 2014.

So it was the growth of national product which was wiped out by the crash seven years ago; but *not* the growth of debt. And the total nominal "value" of the over-the-counter derivatives of the megabanks, which the BIS thought was roughly $550 trillion at the end of 2007 just before the crash, it now estimates at well over $700 trillion, overwhelmingly concentrated in a dozen banks on Wall Street and in the City of London.

So you can pick your bubble, among the financial bubbles which have formed since the 2007-08 crash, which will trigger this follow-up crash. There's $500 billion in unpayable Eurozone bailout debt; there's $850 billion in corporate "leveraged loans" in the U.S. economy; $1.6 trillion in junk bonds; $800 billion in subprime auto loans; and these things are not yet as large as the pre-crash $7 trillion mortgage-backed securities bubble, but they are growing faster than it did, and, more importantly, they're being piled on an economy which is less productive, with less productive employment and less real demand, than even that of the first decade of this century. Another financial collapse is built in—in fact is under way— unless a Glass-Steagall bank reorganisation and national credit for productive projects are implemented now.

There are not only warnings now in the financial columns, but also crash warnings from official bodies. On March 20th the Bank for International Settlements issued a warning about "high debt and low prices in the oil sector". This is a quote from them: "A toxic mix of high levels of debt in the oil sector and a sharp decline in the price of the commodity could have far-reaching effects on the global economy. The total debt of the gas and oil sector worldwide stands at roughly $2.5 trillion, two and a half times what it was at the end of 2006." I'm still quoting: "At collapsed oil prices, it may have no more than $350-$400 billion in revenues to service this" (2.5 trillion in debt), "leading to a collapse of the debt", the BIS warned. The U.S. Office of Financial Research, which does research for the major bank regulators in the United States, part of the U.S. Treasury, made a report on March 18th that the United States appears to be on the verge of a financial markets crash. The OFR cited three technical debt bubble measures which it said matched the levels of 1929, 2000, and 2007.

But the OFR focused on the extraordinarily high level of the “leveraged loan” debt bubble, relative to lending and credit generally, and in a March 11th speech, the [Vice] Chairman of the FDIC—the deposit insurance corporation in the United States—Mr Thomas Hoenig, announced the same warning about these leveraged loans, which are a close cousin of the $1.6 trillion junk bond bubble. This warning came out of a “national credit quality report” which the FDIC did from an asset sampling of all the banks in the United States. Thomas Hoenig said that the survey found the leveraged-loan bubble had grown to $850 billion in the U.S. banking system at the end of 2014, from only $380 billion two years earlier. A second report, by the same Office of Financial Research in the Treasury, issued the same day, found that the six biggest U.S. banks have an apparent $10 trillion in their assets, but they have another $5 trillion in exposure—that is, meaning to derivatives—and this is their computer-model calculations, meaning they claim they have $5 trillion in value at risk in their derivatives exposures, which in nominal terms are over $230 trillion. Five trillion in exposure unbacked by any capital would be bad enough, but it has been clear in practice, since the collapse of Long-Term Capital Management back in 1998, that when huge bets on a debt bubble go wrong, and every firm is trying to close out every derivative contract in the same direction at the same time, a financial institution’s liability can explode to anything up to the full nominal value of its derivatives exposure; again, talking about $230 trillion in the case of these six largest banks.

The central banks of the United States, Japan and Britain, have in fact created the biggest and most dangerous bubble directly themselves, and it is in this regard that we begin to understand the 180-degree difference of what the BRICS’ new credit institutions are set up to do, and what their importance is. Between the U.S. Federal Reserve, Bank of Japan, European Central Bank and Bank of England, they have printed the equivalent of $8 trillion to buy securities from their biggest banks. The Fed alone has printed over $4 trillion through its four different quantitative easing programs. Of that, almost equal amounts went to the megabanks in the United States, and those in Europe.

None of this mass of money, which was printed for the biggest banks, has been loaned out. The six biggest U.S. banks' deposits, for example, rose by $2.2 trillion from 2008 to 2013; their so-called excess reserves increased by more than $2 trillion at the same time; their lending dropped by $700 billion, at the same time. Since mid-2013 the Federal Reserve has reported gradual increases in bank lending, but, tellingly, five of the six biggest banks, in their own audited financial reports, have continued to show their lending either stagnating or falling further, up to the present time. So while they have over 65 per cent of all the deposits in the whole banking system of the country—thanks to the Fed—they have turned this into speculative money; it's in financial derivatives, securities, swaps, repo loans to other banks and non-banks, shadow banks, and financial companies and funds; it's not in the real economy through loans. All of the masses of this central bank money-printing have produced one thing: excess reserves of the banks, held at the central banks, which is flowing in and out of various securities and derivatives bubbles.

And then they have produced something stranger: bubbles in the government debt of the United States, Germany, and other major countries themselves. Now, it was a principle of Alexander Hamilton's First Bank, that that Bank would not buy U.S. government debt; that it would make loans against government debt as collateral, held by the borrowers, but that the only government debt the Bank would hold was that which was put into it as capital stock when it was founded. This was likewise a principle of President Madison's Second Bank, and of Henry Clay's Act to create a third bank in 1841 which was enacted by Congress but vetoed by the successor of a conveniently assassinated President Harrison. Now we have the spectacle of three central banks, the Fed, the ECB, and the Bank of Japan, at various times buying the majority of all of the debt issued by their governments, trying to provide more and more reserves to financial institutions, which stubbornly refuse to lend them.

This quantitative easing practice eventually has driven the interest rates on even the medium-term bonds of the major trans-Atlantic governments down towards zero; and eventually it has also created scarcities of these bonds. In effect, these governments have been deprived of the ability to raise large bond issues for infrastructure from their own publics, as Egypt did so successfully last summer for the second Suez Canal: nine billion dollars' equivalent raised in Egyptian currency, from Egyptians alone, within the space of eight days, in order to build that second canal. This is what has been cut off by the zero-interest-rate quantitative easing program of the major central banks.

German bond rates, for example, are too low for savings or retirement bonds, too low for insurance companies to buy them for their risk reserves; rather, all but the longest-term government notes and bonds have become leading instruments of financial speculation in the world; in the repo markets, in the derivatives markets. It’s said that every hedge fund in the USA and Europe has invested heavily in the same bet; that is, a long bet on 10-year U.S. Treasury bonds, meaning betting that their interest rates will go down still further after seven years of steady decline.

The current financial media rumours of an imminent crash in the bond markets, therefore, are that these bond markets are becoming illiquid. The London financial press are now publishing repeated alarms, including from official sources; for example, *The Telegraph*, on March 21st: “But it is the corporate bond market where worries about trading conditions are most acute. The ultra-loose monetary policies pursued by the Fed, the Bank of England and the European Central Bank have resulted in a torrent of bond issuance in recent years from companies seeking to capitalise on rock bottom interest rates. A rate hike by the US Federal Reserve, which would be the first since 2006, could trigger turmoil...” (Still quoting.) “Last week, the Bank for International Settlements cautioned that liquidity was concentrating in the most readily traded securities and that conditions are deteriorating in the less liquid ones. Perhaps the most arresting warning came last November, when the International Capital Market Association (ICMA) surveyed investors, analysts and traders of European corporate bonds and concluded that the common fear was that a meltdown of global credit markets had become unavoidable.” The bond markets are in fact not actually becoming illiquid; rather, all the liquidity in them is buying the same bonds and derivatives, while others—for example, now, the hundreds of billions of high-interest bonds of shale oil drillers and related companies—have become illiquid. This is what happened 10 years ago when U.S. mortgage-backed securities and their derivatives became the bet that every bank and fund had to be in, and in big. If the crash is triggered in this way, the central banks will have done it directly themselves.

So, now let’s look at these nascent international credit institutions, over against this. The formation by China and the BRICS countries of a series of new international credit banks for infrastructure has unleashed the potential to create the first real economic growth in decades, along the Silk Road and Belt, including in Africa and the Middle East. It also carries the potential to reverse years of economic collapse in the trans-Atlantic system, the United States and Europe. The United States, as I mentioned, scrapes the bottom of all industrial countries, by investing just 1.3 per cent of its GDP in economic infrastructure; the EU countries are really no better, with an average of 1.7 per cent—this compared to 4.8 per cent currently for India; 8 to 9 per cent in China every year since 1992. Net investment in infrastructure in Germany, the “economic powerhouse” of Europe, has been *negative for 10 years*; that's why, to cite one example, the bridge over the Rhein River near *EIR*'s Wiesbaden office is closed and unusable, with no other bridge over Germany's most important river for 40 km to the north, and 50 km to the south.

But the United States' economy faces a more terrible breakdown than anything occurring or threatened in Europe; that is, that the entire arid, semi-arid western and south-western regions of the United States are running rapidly out of water for uses essential to modern human life. California, the most affected state, has been estimated just now, by the space agency NASA, to have just one year of water supplies remaining. Even somewhat increased rains this winter have not affected the deepening drought condition in the slightest. Irrigated agriculture has already been lost; food production, as well as industrial production, has been cut; but the most tragic aspect is that nothing is being done by governments, and nothing is being *planned* by governments, to bring back additional water supply to the region. Given this absolute feeble economic sterility, the drought may easily continue long enough to make desert of, and depopulate, the United States’ most productive region.

So the United States under Obama has now become the isolated adversary of the AIIB and other Silk Road development banks; but the United States remains the *critical* nation to join China in this global-spanning investment.
Why? It's important to understand that China has been the sole source of credit in the world, for the world, since the 2008 crash. It has been until very recently the planet’s one and only credit driver, the one nation holding back an economic dark age.

As I mentioned earlier, the Federal Reserve printed four trillion in QE programs, four trillion dollars, purely building up major banks’ deposits and excess reserves, for purposes of speculation. This newly-printed money does not enter the economy through bank lending; it merely drives up the value of assets held by financial institutions and traded among them. But the State Banks of China have issued credit—if you like, “printed money”—at the rate of four trillion dollars’ equivalent *per year* since 2009; in the range of $20 trillion in total, leveraging even China’s huge currency reserves by five times. And the vast majority of this world-historical credit flow has not been for their private banks, but for every other sector of their economy.

So it is a considerable understatement to say that China has been the only economy in the world which has maintained its growth through the crash and collapse; it has maintained *the world’s* growth, the world’s demand for machinery and commodities and new technologies. China used, between 2011 and 2013—that is, in three years—as much cement, and this is considering only high-quality grades of cement, as the United States used in the entire 20th Century: about four gigatons, four billion tons. Scores and scores of new cities were built, of over one million people each; hydroelectric and water management projects on a very large scale; incredible transport and port development; two-thirds of all the construction cranes in use in the world. China built, between 2006 and 2014, a 16,000 km network of high-speed rail lines—larger than Europe's entire high-speed network, equal to all the rest of the high-speed rail in the world—and is building another 10,000 km now. We don't need to discuss the development of its space and fusion energy programs during those same few years.

Think of the demand which Lyndon LaRouche made in a statement approximately one month ago: collapse Wall Street and the City of London; let that bad debt go, but create a buffer of credit for productive employment of populations. Wall Street and London did the collapsing, the trans-Atlantic nations and Japan provided the bail-outs to save them from collapsing; while China provided the only buffer of new, productive credit.

But during that time, China has been acting against the worst of economic circumstances and the worst of financial practices by the global banks; so some of this immense amount of credit issuance therefore went into debt bubbles in real estate and commodities, eagerly abetted by the carry-trade money printed by the Federal Reserve and Bank of Japan, and flowing through London's Hong Kong banking centre into shadow banking in China. Some of the credit went into what is now overcapacity in manufacturing in China; that is due in part to the collapse of the real economic markets of Europe and the United States.

This credit is reflected in the form of debt, and some of it is now unpayable. Now, through the breakthrough of forming the BRICS and Silk Road credit institutions, China is assisted in its policy of *redirecting* some of this debt and new credit not only away from shadow banking and commodity bubbles, but also away from manufacturing investment, and into new, high technology infrastructure, education, and scientific progress—future productivity. Thereby, it can also mobilize its huge domestic savings, which are estimated at eight trillion dollars' equivalent, through these institutions and into investments and productivity advances in much of the rest of the world. India will also do the same through these institutions, and also build its manufacturing sector, which has lagged well behind up to now.

This is Hamiltonian credit! Hamiltonian credit is the *reorganisation* of debt—including, sometimes, unpayable debt—and its redirection into investment in the future productivity of mankind. Alexander Hamilton's own First Bank of the United States reorganised America's debts, both the payable and the unpayable, and directed them, by replacing them with new longer-term debt, backed by taxes, but, much more importantly, invested in creating a national transport capability, ironworks and other manufactures, for the creation of the United States' economy during the subsequent 19th century. This is completely opposed to a policy of printing money to create excess private-bank reserves and inflate assets.

So U.S. debt, as well as European, urgently needs to be directed away from what is now zero-interest issue of debt by governments, creation of bank reserves thereby—and speculative instruments benefiting only Wall Street. In effect, China has already done this with its U.S. Treasury holdings, as was noted just yesterday by an astute German banker, who was interviewed from Beijing by the German financial publication *Wirtschaftswoche*. He said that the paper money issued by the U.S. Treasury was, in part, being re-created by China into infrastructure investment; that is, through their holdings of U.S. Treasury securities and their investment through these credit institutions.

Because the U.S. dollar has been the world reserve currency, and nearly $13 trillion worth of U.S. Treasury debt is publicly held, the conversion of even a small portion of that debt into a credit bank to work directly with the new BRICS credit institutions, would be decisive for the whole Silk Road infrastructure project, and for the revival of the U.S. economy as well. It would decisively raise trans-Atlantic government bond interest rates as well, away from zero, so that they can mobilise public savings for infrastructure investment, in addition to the credit buffer of such a credit bank.

Obama's suicidal campaign against the AIIB is the worst defeat of a Presidency which has piled up many such disasters; in my view, Obama's defeat on this ranks with the disaster of Churchill's Gallipoli campaign, which I think Australians know something about. Churchill was dumped as a result of that campaign; Obama has to be dumped *now*; and LaRouche has said in the process of this Presidential campaign, he should be dumped.

Think, for example, of what Franklin Roosevelt, having been elected, but still five months away from the Presidency, did to effectively paralyse Herbert Hoover, by simply refusing—opposing, and refusing to collaborate in, anything that Hoover proposed or did, effectively removing Hoover from the Presidency during that entire period of time, in which what was going on in Congress, and what was going on in preparation for the Presidency, was being directed by Roosevelt, and not by Hoover. LaRouche has called for the dumping of Obama, neutralisation and dumping of him as a result of this tremendous defeat that he has suffered in the course of this campaign. If that happens, the United States—which is the decisive nation, along with China, in creating this new universe of productive infrastructure credit—the United

States can then join in that endeavour; and that, of course, is the purpose of our organising, and part of the purpose of this conference that I know you're holding.

So, having said that about the crash here, and the AIIB and other new and nascent credit institutions, let me leave some time, if you do have some questions or comments, to respond to them.

Craig Isherwood: Okay, well this is a question from Sleiman Yohanna, who works full-time in our office here. “I know that China is different, but my question is: despite the financial and economic sanctions against Russia by the West, could you give us a ‘reality check’ and comparison between the EU/USA and the Russian economy? Thanks.”

Paul Gallagher: Well, the Russian economy has very different kinds of problems, it has very serious limitations on it, which have to do with basically the dependence on imports of various kinds, which have been cut off—both those which have been cut off, and those which have not, but where the import-dependency is still a weakness; and also the most powerful blow which has been delivered to it is the so-called “Saudi Sanction”, the oil sanction, which has made a much more damaging impact on the Russian economy than any of the sanctions that were imposed through the EU, NATO and so on. It has been that oil sanction which has really hurt them.

There has clearly been a move towards real integration, not only political support, among China, India and Russia. The political support has been stated very publicly and clearly, for example by Li Keqiang, the Prime Minister of China, and by Prime Minister Modi in India and others in his government; the political support for Russia in the face of these sanctions has been made very clear. Actions are following words in that respect, in terms of direct credit support for the Russian oil and related industries, and just in recent days India, in addition to longstanding co-operation, has also started to make investments into Crimea, for example, in order to develop some modern industry in Crimea, which is still semi-cut-off, even from the Russia which it has re-joined.

So there are serious problems there which—I’m saying, don't look to Russia to make large contributions to the issuance of credit through these development banks. And that's part of the reason why I concentrated so much on the United States, it is the critical question, it has more—there's more of a potential contribution to real development credit from the United States, than all of the European nations which have joined the AIIB combined. The United States, because of what I went through, the world reserve currency and the very large amount of publicly held debt, is in a position to really do things here; don't look for Russia to provide that kind of input, but rather scientific input and industrial input of critical types. Nuclear construction is emblematic of that: it is really, at the moment—although it may be overtaken by China, but at the moment—really the world's leader in full nuclear plant construction, and in new modalities of nuclear plant construction. So it will contribute; but not credit.

Jim Hazzard: Paul, why doesn’t Putin take over his central bank—that’s being run by a monetarist at the moment, charging 15 per cent interest—why doesn’t he just take it over, and create Hamiltonian credit through that bank the same as China is doing today?

Paul Gallagher: Well, I can't really be Vladimir Putin, or speak for him. We know what has been proposed: what you just proposed has been proposed repeatedly by one of his advisers, Sergey Glazyev; and that is of course a very strong and longstanding connection to the writings and views of Lyndon LaRouche, whom Sergey Glazyev brought to Russia more than once, to speak in the Duma and elsewhere there. Those have so far been an isolated—Glazyev's has been an isolated voice. Putin certainly *could* do what you're proposing, although I think much more readily by using the, I believe it's called the National Welfare Fund, or that's a rough translation of it into English, which has been created and has been used only, or almost exclusively, as reserves for the defence of the Russian currency; it essentially has been kept in reserve and not used as development credit. Such a credit bank, I think, could be more readily created that way, but certainly it's there to do; the reason that he doesn't do it appears to be because of the disease of monetarism infecting almost all of his team of economic advisers and his financial and economic officials. And we just have to attack that in every opportunity that we have; to organise Russians, both with contacts in the government and without, because that disease of monetarism is running their policy.

Question: The room's gone a bit quiet here just at the moment, so I think they're all thinking, we're all thinking about your words. You probably can't give financial advice, but if you were going to give some advice: Where would you put your money when this crash comes?

Paul Gallagher: [Laughing] I only understood the last few words, but... about putting your money, when the crash comes?

Craig Isherwood: The age-old question that—everyone's sitting on the edge of their seat waiting for your answer! Where do you put your money, so it's safe?

Paul Gallagher: Well, it would do everybody who's waiting for that answer good to study the—well, Robbie Barwick is going to deal with it immediately after me, here—to study the real history and workings of the Hamiltonian National Banks of the United States. Because the genius of those banks is that they were national banks of the United States, and you and I could open accounts in them, and borrow money from them, so there's where you want to put your money; the thing is, you have to create it first.

Valeria Birsa: Considering that most of the United States' government was bought by bankers, dumping Obama—wouldn't that bring one of the same back? Therefore, what other options would Americans have?

Paul Gallagher: That's a very important question; I would bet that Helga Zepp-LaRouche dealt with this in part in her presentation, but let me go at it too, it's a very important question. We had a major episode in December, of the Wall Street banks running roughshod over the Congress in a very public way, everybody could see it, the media all reported it, the average American could see very clearly. The Wall Street banks intervened directly to tear up banking regulations which were weak enough to begin with, they had been passed five years ago as part of the Dodd-Frank bill but they had not really taken effect. When they were about to take effect, finally, they were repealed, on the direct bribery and threat of Citibank, JPMorgan Chase; there were infamous incidents where President Obama and Jamie Dimon, the CEO of Morgan Chase, were simultaneously calling and whipping the same members of Congress to vote for the provisions to repeal these bank regulations. And what they were repealing were the few regulations which forced the banks to take only the very riskiest derivatives—the commodity derivatives, the uncleared credit derivatives—and move them outside the commercial banks so they wouldn't be, so the taxpayer wouldn't be insuring them, and move them into separate firms. But since that was less profitable to the banks, they simply crushed it.

This was so dramatic, and so obvious, that it led to a backlash immediately, so that the repeal of these regulations, which they were rushing though the Congress, very nearly failed at the last minute because there was a joint revolt in both the Senate and the House at the same time, which rarely happens—that is, where members of the Senate and members of the House get together to try to stop something. And it was a public revolt, and it created what some called, at that time, a “Glass-Steagall moment” where quite a lot of—it hit quite a lot of members of Congress and others at that time, that there was nothing but Glass-Steagall that could possibly work; that the regulations which they had been told were “just as good as Glass-Steagall” had just been ripped up by the bankers.

And that didn’t immediately win any victories in Congress, but now, as you undoubtedly know, a major candidate for the Democratic nomination for President has started his campaign on the basis of restoring Glass-Steagall, and that is the former Governor of Maryland Martin O’Malley; and that is his main thrust in his campaigning, is “restore Glass-Steagall”. And he doesn’t mince words about it, he says: break up the Wall Street banks; some of those banks have to be closed down; the heads of those banks have to go to prison; that’s what I’m campaigning around. He’s also gone after Obama for the kind of “regime change” wars that the United States has fought under Obama, the disasters of those wars. So this backlash has now materialised into a potential fight in the Presidential campaign itself, which are the things that Americans pay more attention to than anything else, politically, the Presidential election fights.

It’s now, Glass-Steagall is now in the middle of that, and what LaRouche said about that last week, very pregnantly, he said, “This policy came from me, and I’m going to back it up 100 per cent.” So that’s an indication. The thing has to be cleared out, it’s not necessarily the case that if we dump Obama—in fact, the shock of that would also have a broader impact. But those shockwaves have already hit; what the banks have done, the crimes they’ve committed, what they’ve gotten away with; this really is, underlying it, “issue number one” among a large portion of the American population, so as soon as a Presidential candidate has gone with it, he’s become a magnet for a tremendous amount of attention, and potential support. And, as Lyn said: we created it, we’re going to back it up.

Craig Isherwood: Thanks very much, Paul, that’s great.

Paul Gallagher: Thank you.

Craig Isherwood: It’s very late over there, and as we say here in Australia: When you’re driving home, please watch out for kangaroos! So, we’ll see you again. Thanks very much, Paul.

Paul Gallagher: All right, I’ll let you know if I hit any.