Russia Dollar Debate Is Really Over New System

by Rachel Douglas

A debate raging in the Russian media about the coming crash of the U.S. dollar, is by no means limited to the issue of the current ruble-to-dollar exchange rate. It goes, rather, to the essential matter of "a new world financial architecture," as State Duma Deputy Sergei Glazyev put it in one of his latest interviews.

Economist Tatyana Koryagina ignited this productive debate, when she chose the June 29 Russian parliamentary hearings convened by Glazyev, under the auspices of the State Duma Committee on Economic Policy, as the occasion to forecast a blowout of the dollar and the U.S. economy, on or around Aug. 19 of this year (see *EIR,* July 20, 2001, including Lyndon LaRouche's parliamentary testimony). The date she named echoed the Aug. 19-21, 1991 "coup" incident that marked the end of the Soviet Union, and the Aug. 17, 1998 crash of the ruble and suspension of government GKO bonds.

Glazyev rejoined, in a *Pravda* interview five days later, that he would not like to specify a crash date for the United States, insofar as most of the witnesses at his hearings had concurred that the U.S. economy is *already* deep in crisis.

Koryagina's Forecast

On Aug. 15, the Russian debate flared again in connection with the publication of an International Monetary Fund warning about the over-valuation of the dollar. Radio Ekho Moskvy interviewed Koryagina, who updated her forecast of a dollar blowout around Aug. 19. NTV, national Channel 2, covered her as well. Ekho Moskvy's wire service headlined, "The U.S. Dollar Could Collapse in Price, the IMF Warned Today," while Lenta.ru and other Russian web news services highlighted the International Monetary Fund's attention to the U.S. trade deficit as a threat to the dollar's current levels, the balance of payments deficit, the negative savings rate, and the growth of corporate and household debt in recent years.

Koryagina's interview, as summarized by Ekho Moskvy on its website, included the following: "She is certain that the crisis in America, which could take place before the end of August, will affect our country. Tatyana Koryagina thinks that the dollar could fall to 20 or even 15 rubles" (it's now close to 30:1). Koryagina pointed out that "90% of all transactions in the world are denominated in dollars."

Koryagina again characterized the worldwide crash, as she had done during the State Duma hearings of June 29, as being "like an explosion of the Universe."

Several of the Russian experts, who testified before Glazyev's Committee on June 29, also provided commentaries on the Russian website Strana.ru, on Aug. 15. Sergei Yegorov, chairman of the Association of Russian Banks, downplayed the magnitude of the coming crash of the dollar, claiming that the U.S. economy possesses "reserve stability," but he admitted that "the IMF may have some sources of information that we don't know." In his piece, titled "World Financial System in Crisis," Moscow University economist Andrei Kobyakov wrote that the latest wave of crisis seems to have taken professional analysts, as well as the man in street, by surprise, but it shouldn't have, because "it is a lawful continuation of the crises that have occurred during the past 15-20 years. It is merely one phase of a fundamental, systemic world financial crisis." Kobyakov is an expert on world "hot" money flows and derivatives speculation.

Another piece of analysis on Strana.ru highlighted an Aug. 16 article in the *Financial Times* of London, which attributed the dollar's instability to U.S. Treasury Secretary Paul O'Neill's failure to mention the "strong dollar" policy, in an interview on CNBC the day before. The daily *Vedomosti* of Aug. 16 headlined, "IMF Fears for Fate of the Dollar; A Weak Dollar Will Create a Hole in Russia's Balance of Payments." This lengthy article on the American balance of payments deficit characterized the IMF paper as "a storm alert," warning that "although the United States is not Russia, and the dollar is not the 1998 ruble," even a 10% fall of the dollar "threatens the Russian economy with serious problems." *Vedomosti* quoted Pavel Teplukhin of the Troika-Dialog investment company, who analyzed Russia's present balance of payments surplus as due more to the strong dollar than to high oil prices, as such: "Russia's major exports are denominated in U.S. dollars, while imports are dominated in euros, as our major trade partner is Europe," he explained, giving multibillion-dollar estimates of how much the Russian balance would decline, for each degree of collapse of the dollar.

Monetarist Apologists Exposed

The hubbub over Koryagina's new interview served to flush out Russian apologists for the speculation-wracked, moribund post-1971 financial system. Academic and government experts, right up to the level of the Minister of Finance, stepped forward to promote a Russian version of O'Neill's "everything-will-turn-out-just-fine" school of propaganda, or to try and limit the discussion to the ruble-dollar exchange rate.

On Aug. 16, Strana.ru interviewed Sergei Nikitin of the IMEMO think-tank, who said that the dollar might slide by 10%, but "I do not share the view that a decline will be down to 15 rubles per dollar." Nikitin maintained that, "If the dollar dips too low, it will be replaced by another currency, but I don't think that America, powerful as it is despite

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Dr. Sergei Glazyev (center) chaired a press conference with LaRouche at the Moscow Press Center on June 28, and Parliamentary hearings on June 29. Forecasts and policies discussed there are now the subject of intense public debate around Russia's government.

everything, will allow that." Other media carried statements from "circles close to the Central Bank," to the effect that there was no danger of a drastic drop of the dollar against the ruble.

On Aug. 17, Aleksei Volin, deputy office chief of the Russian government, issued a statement that Koryagina's remarks were "unfounded and inappropriate," adding that only economic growth in Russia would alter the ruble-dollar rate. Then, Finance Minister and Deputy Prime Minister Aleksei Kudrin went on Ekho Moskvy Aug. 17, with a counter-interview to Koryagina. It was the third anniversary of the default of August 1998. Kudrin claimed that Russian financial policy today is designed to provide "some immunity against the kind of situation we had in 1998. I would say that we have already developed immunity." By slashing budget spending, Kudrin asserted, government borrowing has stopped. "We are not building pyramids, and there should be no defaults."

Kudrin sang the praises of what used to be called "built-in stabilizers," back during the 1968-1971 world currency crisis. He even spoke as if pre-1971 exchange regulations were still in effect. "There will be no sharp fall of the dollar," said the Russian Minister of Finance, "The world system, the so-called Bretton Woods institutions, mean that a world system was created in the 1940s to support currencies and balances of payment in all leading countries. . . . I have to say that this system has enough instruments to alleviate or neutralize fears, concerns or trends. As for Russia, this will not affect it in any way in the near future. . . . So, those economists who have decided to make themselves famous and come up with such hot statements on the basis of [the IMF] report—by the way, we have not seen some of these people on television for ten years. So, they have made harsh assessments and all of a sudden appeared on television. But I have to tell you that there are no serious grounds to worry."

New Architecture 'Inevitable'

In a more fundamental and sophisticated assessment than Kudrin's, Sergei Glazyev, in his latest interview for the newspaper *Vek,* forecast the creation of "a new financial architecture" in the future. A short bulletin on his statement appeared on Aug. 16 on Glazyev's website: " 'The devaluation of the dollar is inevitable. It is only backed to the extent of 4%, the lowest level of backing of all freely convertible currencies. It should also not be forgotten, that in just the past several years, Americans have lost $3 trillion, which they invested in high-technology company stocks, while the world financial market has deflated by $9 trillion. I don't think, however, that the fall of the dollar will be accompanied by a landslide. It will more likely happen gradually. In the medium term, the dollar's exchange rate on the world market may decline by 10-20%,' Glazyev stated. . . .

"The Chairman of the Committee on Economic Policy and Business does not exclude, that 'in ten years the architecture of the world financial system will have changed completely, and become more stable. Possibilities will be found for a way out of the dead end, by shifting to a new arrangement among convertible currencies.' "

The chairman's words gain more weight from the news that Glazyev, together with his close associate Academician Dmitri Lvov, are serving on a special economic policy team, at the Security Council. Thus the cabinet, where Kudrin and Minister of Trade and Economic Development German Gref are in charge of economic policy, is not the only locus of economic strategizing for Russia. An article by Alexander Nadzharov in the liberal *Novyye Izvestiya* of Aug. 9 lamented that this Summer "may mark an end to the biggest political illusion of our time: the illusion that authoritarian leftist methods of government are compatible with a right-wing liberal economy." In other words, President Vladimir Putin will remain a strong statist, but will dump liberalism.

To demonstrate this point, which the author calls "President Putin's natural drift to the left," he cited "the establishment of a interdepartmental working group on economic security within the Security Council." Claiming to have obtained its working documents, Nadzharov said that the names of the working group members indicate how the national economy will be amended 'in line with Presidential instructions given on May 19, 2001.' " Among them are Academician Lvov, Sergei Glazyev—a corresponding member of the Academy of Sciences as well as Duma committee chairman—and the deputy director of the Federal Security Service (FSB), Yuri Zaostrovtsev, "who advocates criminal prosecution for taking hard currency out of Russia."

This working group, according to *Novyye Izvestiya,* is supervised by Vyacheslav Soltaganov, former chief of the Tax Police, and since March 2001 Deputy Secretary of the Security Council. He holds the rank of general in the FSB. Nadzharov complained, "It was Soltaganov who advocated an all-encompassing system of secret financial police in Russia and abroad. This led some business owners to start thinking about defecting to the shadow sectors of the economy. It also led the President to assign the notorious 'economist' to the Security Council. There, Soltaganov proved his ingenuity by drafting a plan for the future economic development of the state. Its very first paragraph specifies in no uncertain terms that the status of Russia as a geopolitical power directly depends on implementation of the concept of economic security."

The Letter of the 43

Among the many commentaries and statements published in connection with the anniversary of the Aug. 19-21, 1991 "coup" attempt in Moscow, an outstanding one was the open letter from "43 concerned citizens," published in the left opposition paper *Sovetskaya Rossiya* on Aug. 14, which Sergei Glazyev also signed. Other signatories included Communist Party leader Gennadi Zyuganov, Agrarian faction head M. Kharitonov, the editor of *Zavtra* A. Prokhanov, Academician Zhores Alfyorov (Nobel Prize winner in physics), retired Gen. I. Rodionov, and other nationalist authors and military figures. The document, "Stop the Lethal Reforms!," highlights the strategic nature of Russia's choice of economic policy. It was addressed to the population, but included an appeal especially to President Putin, after enumeration of the woes inflicted upon Russia during the past decade.

The appeal concluded, "We have no illusions about President Putin's abilities and moral principles, but we appeal to him to shed the terrible burden of Yeltsinism. It is necessary for Putin to get rid of Yeltsin's retinue, who are so hated by the people. . . . We appeal to the President to take the helm of the state away from such amateurs as Kudrin and Gref, who are sending the economy into a tailspin. Let the President strike a decisive blow at the shadow business and mafia, as he did in the case of [Boris] Berezovsky and [Vladimir] Gusinsky. The overwhelming majority of the population will support him in this matter: workers, peasants, academics, the military and patriotic businesspeople among them. The secret service officials who came to power with Putin, bringing with them strong wills and selflessness, are stifled by the corruption of Yeltsin appointees. They are sure to become Putin's supporters in 'curing' the state. . . ."

Governors In Denial As State Budgets Blow

by Mary Jane Freeman

By the June 30 end of most U.S. states' fiscal year, "expanding budget gaps" due to "anemic revenues" had hit 20 states. Reality had struck: the stock market/New Economy blowout, combined with the million-layoff collapse in the manufacturing base of the U.S. economy, caused revenues to nosedive, and state after state to report tens to hundreds of millions of dollars in shortfalls.

Now comes news from state budget offices across the nation, of new shortfalls in the tens of millions in *just the first month* of the new fiscal year (July 2001-June 2002). The reports confirm Lyndon LaRouche's analysis: the depression is here. But governors, legislators, and state officials are in a state of hysterical denial, hoping somehow to ride it out. July's news has meant and will mean: layoffs of thousands of state employees; school budgets and health care programs being slashed; public safety job vacancies left open; state infrastructure left to rot; rainy day, surplus, and tobacco settlement funds drawn down; and states' bond ratings downgraded.

Contrary to wishful thinking, this fiscal year will be a disaster for most states. The 1990s "golden years," when states relied heavily on revenues generated from taxing Federal Reserve Chairman Alan Greenspan's stock market bubble, are over.

EIR's May 4, 2001 issue showed that 14 states were then engulfed in budget crises: we forecast that at least 25 would be critical by June 30, and all states by year's end. On Aug. 17, a *Boston Globe* article reported: "At least 26 states . . . are facing budget cuts in the wake of a sharp drop in the taxes they collect from investors rocked by the stock market's decline. States collected billions . . . in taxes on capital gains and income earned through stock options during the Internet-fueled bull market. . . giving them a chance to boost spending, cut taxes, and increase surpluses. But with the high-flying Nasdaq Stock Market down 50% in the past year and investment-related taxes evaporating fast, the pendulum is rapidly swinging back."

It is high time elected officials faced reality.

July's Revenues Plummet

An hysterical calm seems to be gripping governors and legislators as July's bad news rolls in. Many officials are saying, "we have to wait to see if there's a trend," as if some artificial "fire wall" existed between the just-closed fiscal year