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Dr. Stanislav Menshikov

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## Industrial Policy and Politics in Russia

*Here are the remarks of Stanislav Menshikov, a distinguished Russian economist and a special friend of Lyndon and Helga LaRouche. He opened the Sept. 15 panel on “Russia—Eurasia’s Keystone Nation.” The full title of his speech was “Industrial Policy and Political Climate in Russia for the Land-Bridge Project.” Subheads have been added.*

**Helga Zepp-LaRouche:** I’m very happy to welcome the participants in the panel on Russia, because, for the obvious reasons, if we want to find a solution to the world’s problems, the role of Russia in the present historic moment is extremely important. The unfortunate thing I have to announce is that one of the speakers, Mr. Razbegin, who is the vice chairman of the SOPS, which is the official infrastructure organization associated with the Economics Ministry and the Academy of Sciences, due to the government change which occurred two days ago, suddenly could not come. But we will have his speech presented anyhow, because he sent his slides and pictures, and Rachel Douglas is going to do her very best, to present the speech of Mr. Razbegin.

Otherwise, I’m very happy that a very special guest is sitting here on the podium, namely, Professor Menshikov, who is most emphatically a very good friend of Mr. LaRouche, and who made it a special point to invite us to his 80th birthday in May, which we attended in Moscow. And this was a gigantic celebration at the Academy of Sciences for two days. And there he was very happy to take the invitation back to Lyn’s 85th birthday: So that is a very deep friendship which is expressed there.

Professor Menshikov is also probably *the* best expert on America. He is a top economist; he wrote many books, one of which we translated just recently into English, and have gotten it out in the United States. He’s an expert on physical economy. He was one of the staunchest critics of the Yeltsin period and has written a book about the destruction of the Russian economy in this period by the oligarchy. He also wrote a book, together with John Kenneth Galbraith, so he is a top expert on FDR’s economics. And I’m very happy to welcome you here at this panel.

Then we have Professor Cherkasov, from the Vernadsky State Geological Museum in Moscow, who is upholding the tradition of Vernadsky. Mr. LaRouche and I have had the pleasure of actually having a guided tour through this museum, and I can only encourage you, that if you come to Moscow, do



EIRNS/Julien Lemaitre

*Prof. Stanislav Menshikov told the conference that the Bering Strait Tunnel project is vitally important, but politically, “it’s also a very difficult task: And it also means a radical change in political and economic policies in most of the countries of the world.”*

not miss going to this museum. Because he has organized it in the spirit of Vernadsky: namely that you have one section which is non-organic, a demonstration of different elements and raw materials; and then you go on to the region of the Biosphere and you see, actually, the evolution of the Earth demonstrated in a very pedagogical way. And then, lastly, you have the area of the Noösphere, which is when Man appeared in evolution, and it is the power of the mind is taking over.

So, his specialty is now obviously, also, around the Bering Strait concept, because there is the question of the development of resources and raw materials, about which he is one of the top experts.

And then finally we have Ilnur Batyrshin, who will also speak on behalf of Yuri Krupnov about the economic development around the Bering Strait.

So, without a longer introduction, I would like to give the word to Professor Menshikov, who can speak for himself.

**Prof. Stanislav Menshikov:** Yes, well, they put a bug on me (I mean a microphone) here. I have to be sure that I don’t tell any secrets. If I say something, then everybody will hear it, and the Russians will have no secrets. [laughter]

Well, I’m five years younger than LaRouche, but of course, he’s more sturdy. You know, he stood here for a couple of hours like Fidel Castro, speaking. Well, I can’t even stand for ten minutes! So, I apologize if I address you here, sitting.

But, I'm a particular fan of the Bering Strait Tunnel idea, and the whole Land-Bridge. Particularly, I became a fan, when I found out that it is going to be finished—that is the railroad coming up to the tunnel and the tunnel itself, is going to be—sometime in 2027. And that will be my 100th birthday, you see! Somebody suggested at my celebration, naming the Alaskan station over the Bering Strait, the La-Rouche Station; and the railway station on our side, the Russian side of the Strait, as the Menshikov Station. I don't know whether this will happen. Of course, that's an overstatement, because actually I have nothing to do with this project, and I haven't participated—so, I think this will not happen.

But anyhow, I want to start with where LaRouche finished, and Helga also, just a moment ago. See, this is a unique project, in the sense that, it can't work if the U.S., Russia, China, and probably India also, do not actively participate in it. Russia—for the very reason that most of it is going to happen on its own territory. China is going to, because it's going to be the provider of quite a large part, I don't know exactly *which* part; I think close to a third, or a half even, of all the turnover over that railway, through the Bering Strait, and over Alaska, and going all the way into the United States, and even into South America.

And China is already becoming an industrial giant! I was very surprised, a couple of weeks ago, when I found out that this year China is producing 460 million tons of steel, which is more than four times what the United States produced. Think of China producing four times more steel than the United States! And also producing 9 million cars this year. I remember when I talked to Galbraith, we were discussing it 20 years ago, and he said, "China really can't produce that amount of cars." You know, we were talking about China catching up with the United States and the other countries, in terms of the economy, and he said, "It is simply not possible that China can produce so many cars."

Now, 20 years have passed, and it is already coming very close to the United States in terms of cars. Somebody even said yesterday to me, "But where are they driving?" Well, the fact is that they're using all that steel, and building new highways, and building new skyscrapers; it's rapidly becoming a modern country. And by the time the tunnel will be constructed, I think that a lot of traffic is going to go from China, through that route, into Alaska, into the United States, into Canada, into South America, because it could become a more economic way of shipping goods from China to other parts of the world.

But of course, there are Chinese guests here, also, and they can talk about China more than I do, and more competently.

## Oligarchs and Neo-Liberal Policy

But let me just say a few words about the Russian connections.

What LaRouche said today struck me as being exactly relevant to this project. Why? He was talking about the empire. You know, one would think, "What was he talking about? This British Empire, and the United States taking up this empire idea: how does this relate to the project?"

As far as Russia is concerned, it relates very closely. Because, after the U.S.S.R. fell apart, and Russia became a separate country, the policy of the United States has always been to continue looking at Russia as a former rival, in the superpower confrontation. And the main purpose of the United States—whether the Brits told them that, or they themselves invented that idea—but that empire idea was to weaken Russia as much as possible, not just as a military power, which they succeeded in doing for a while, but also as an economic power and an industrial power. And to deindustrialize it. You might not realize, but Russia has been deindustrialized much more than the United States has, with all this globalization.

And the ways to do that were twofold. First of all, create an oligarchy in Russia, which they did. And what "oligarchy" means, LaRouche has been telling us this morning, very extensively. And the next, is to make Russia accept the neo-liberal concept, which they took also from the United States and its West European allies. The neo-liberal concept was to minimize the role of the state, minimize the role of the government in the economy. And by minimizing the role of the government in the economy, they would weaken Russia, because the private oligarchy would *not invest* in most of Russian industry. And that's what happened.

This year, 2007, Russia—only now—has reached the level of production, in terms of GDP, Gross Domestic Product, that it had in 1990, just before the Yeltsin counterrevolution, and before the reforms in Russia. It took a whole 17 years to catch up—Russia, to catch up with itself, so to speak. Think of all the wasted time, the whole wasted 17 years, catching up, just catching up to itself!

But that's not the whole story, because in terms of *industry*—and material, physical production, or I would say, material production (which is the same thing)—Russia is behind a full 30%. It can only be on the level in terms of GDP, because it produces 30% more of services! And many of these services are *financial* services, which as any economist knows who understands what physical economics is, means that Russia is backward now, in terms of industry and material production, backward even compared to where it was when the U.S.S.R. disintegrated.

And that all happened mostly in the times of Yeltsin, who accepted the concept of oligarchy, and he created the oligarchy. And he also let the government pursue this neo-liberal policy of minimizing the role of the state. This is mostly the result of his tenure as President of Russia. Russia under him, by the end of the '90s, became *half* of what it was, or even less than that, in terms of material production, than it was at the time of the disintegration of the Soviet Union.



*Lyndon LaRouche, Helga Zepp-LaRouche, and Prof. Stanislav Menshikov in Kiedrich on Sept. 15. A change is occurring in Russia, toward re-emphasis on industrial policy, Professor Menshikov said. "To tell you frankly, there won't be any Eurasian project if neo-liberal policies in Russia continue, for the simple reason, nobody's going to invest in that project in Russia, if it is not the state that leads...."*

EIRNS/Julien Lemaître

Now, after the big boom in the economy and industry that came under Putin, we of course recovered somewhat. But as I said, we were still backward, in terms of industry. Putin inherited that kind of oligarchical economy, with a predominantly neo-liberal government. And it took him quite some time to start fighting that structure. All of you know about how Mr. Khodorkovsky has been sent to jail for criminal ways of amassing his billion-dollar fortune. And other oligarchs have been thrown out of the country, or fled the country, because they were scared of being arrested and sent to jail.

But it took quite some time until he started doing those things. And even now, you could say that he is not fighting against the oligarchic system, which still exists to a large extent in Russia. But it's rather just putting the remaining oligarchs under more strict discipline. And why? The reason is very simple: These oligarchs are investing readily in industries where they can get a superprofit, and those industries are mainly industries that export goods abroad. Russia exports oil, of course; it exports gas, it exports steel, and non-ferrous metals—nickel, aluminum, etc. These are the industries that have reached the pre-reform level.

The oligarchs don't really invest in any other industries of Russia. And if you look at what's happening, for example, with machinery: Russia is not able now to produce a single—or rather *most* machine-tools, that are necessary in various areas of industry. You know, LaRouche has been talking about the United States being in danger of becoming such a country, by losing General Motors and the potential that it has. In Russia, this has already happened, because of the oligarchic structure, and because of the neo-liberal policy. But it's not only military industry or heavy industry, it's also

light industry, like footwear, like textiles, and so on. You should be surprised to know that our light industry, all this combination of industries, is now producing *ten times* less goods than were produced under the Soviet Union! And you should say, "Well, where do all those goods that are sold in Moscow shops come from? Where does all that so-called retail boom come from?" Most of it is imported goods. Russia is importing even that, not just machine-tools and machinery, but also that.

Now, it was only by 2003, that Putin really started attacking the oligarchy seriously, the oligarchic system seriously. And it is only the beginning of 2007, this year, that he has proclaimed an industrial policy, which is a policy to *reindustrialize* Russia, to rebuild those industries that have been destroyed. He first stated that in February of this year, and then made a big statement on the same subject in late April, in his State of the Union message.

### **Will Zubkov Continue Industrial Policy?**

Up to now, industrial policy was taboo, in Russia. The neo-liberal government didn't use it at all. Now, a change is occurring. And I'm talking about this change, because I think it is prophetic that it comes at a time when we are discussing this Eurasian project. To tell you frankly, there won't be any Eurasian project if neo-liberal policies in Russia continue, for the simple reason that nobody's going to invest in that project in Russia, if it is not the state that leads, if it's not the government that leads. So, the change that has come about is propitious for what is going to happen, with the project: whether it's going to live, or not. Because without Russia, it can't go. It can't go through the sky, it has to go through Siberia; it has to go through Russia.



Russian Presidential Press and Information Office

*President Putin (left) with his new Prime Minister, Viktor Zubkov, on Sept. 18. Will Zubkov continue the industrial policy which Putin only recently began, or will he vacillate, as his predecessor did?*

And so, the turn to industrial policy made by Putin is very important. *But*, this comes at the end of his official second term as President of Russia. And we are all worried about what is going to happen next, and will that policy be expanded, and will that be continued after Putin leaves the Kremlin.

Well, just two days ago, as Helga mentioned, a new Prime Minister was appointed by Mr. Putin, and of course everybody's looking at him, not just from the point of view of Mr. Razbegin, who wants to know whether he is going to stay in his job or not. It's not just a question of whether this or that minister retains his job, but it's a question of what kind of fellow is this new Prime Minister, Mr. Zubkov? Which way is he going? Is he going to continue the industrial policy, the policy of reinvesting and rebuilding Russian industry? Or, he is going to vacillate, as Mr. Fradkov did, and Mr. Putin himself did up to a certain time, between neo-liberalism and a more active approach to the economy?

Well, I don't have much information on Mr. Zubkov, the new Prime Minister, except I know that he's a close friend of Mr. Putin. He is older than Mr. Putin; he is 66; Mr. Putin is about to pass his 55th birthday. So, this is a much older guy. But what is interesting, is that they have known each other for a long time, because they are neighbors in their dachas. You know what a dacha is in Russia—that's your country house. And so, Putin's country house is just neighboring to Mr. Zubkov's country house. And the other neighbor there, is the recently announced new Minister of Defense, whose daughter happens to be married to the new Prime Minister. You see how this is a close, family-like, neighborhood-like, dacha neighborhood arrangement.

Why is that important? I am saying that not just to make

a joke. It means that Putin has chosen a man whom he has known for a long time, and whom he believes in, whom he has faith in; whom he believes will be loyal to him, and will continue the line that he has now adopted. And perhaps, after a certain while, could step down, because he's already 66, and make way for Putin to come back, because he's still young, and he could still serve another eight years. So, it's a question of retaining the Putin line in terms of industrial policy. And I hope that Mr. Zubkov will go that way. So, I think that's good for the project.

But I have to make a certain reservation. You know, building a railway across Yakutia, and then across the north of Magadan Region, over into Chukotka and to the Bering Strait, it's like building a railway in a desert where practically nobody lives. Of course, there is a population, but there's a very sparse population; there are hardly any roads there, surface roads. Most transportation is done by air. There are some roads in the Magadan area, because that's the gold mine area of the former Soviet Union, and Russia today, and the same in Chukotka. Chukotka is a little bit developed now, because Roman Abramovich, the friendly oligarch—I mean the oligarch who is friendly with the Kremlin—he has been appointed Governor of Chukhotka, and has been investing some of his own money in Chukhotka. But he's only done that because he's afraid Putin may take away his other billions, like he did with Mr. Khodorkovsky.

### Competing Projects

Anyhow, building a railroad over that deserted area, full of first taiga, then tundra, all the way up to the Bering Strait, is something that will compete with a lot of other projects, most of which are already known, and announced by Putin. Putin wants to build—just for example, not all of them—Putin wants to rebuild the civilian aircraft industry, which has been degraded in the reform years. And that means a lot of investment, a lot of money. He wants to rebuild the civilian shipping industry. And that, again, needs a lot of money. He wants to build our infrastructure—roads. Russia still is backward in terms of roads, particularly highways. You still can't go by a decent highway from Moscow to Vladivostok, without getting sucked in somewhere around Lake Baikal in a mess. But, also he wants to build from 20 to 30 new nuclear power plants, and has just bought a lot of Australian uranium, for that purpose. Just think of the amount of investment you have to make to build 30 nuclear power stations in Russia! Also, there are other projects, like tripling the amount of housing construction in Russia in the next 10 or 15 years. Building a lot of new airports, modernizing the old airports; building new seaports, and reconstructing the old ones; building a lot of pipelines, both oil and gas.

Just consider that amount of investment that is going to

compete with investment for this railroad going through the desert into the Bering Strait, and you will see what the difficulties are. Even though the government seems to be favorable towards this project, but there will be serious competition there. And I'll not be surprised if that project could be delayed at some point.

*But*, I have big hopes in China participating. This should be an international project; this should not just be a Russian project, building that railroad. Russia by itself will probably not be able to amass all the investment to build that kind of a project alone. It has to come together with the other countries.

Now, of course, nothing can be done without the United States. But ask yourself the question: Does the United States want that railroad, or not? Maybe the Governor of Alaska wants it. But does the United States want that railway, which is going to bring a flood of Chinese goods into the American continent? And maybe help deindustrialize America? I don't know. But these are the problems that one should consider when we are talking about this project.

It is a great project. I think it is a project that can solve a lot of contradictions in the world. It can solve a lot of questions pertaining to the rivalry among China, the United States, Europe, and the other upcoming countries. And even though China is projected to surpass the United States, in terms of economic activity, by the early '20s, producing 23 or so percent of total world GDP, compared to only 17% by the United States; Russia is producing more, 5.5% by that time; India producing about 6%, about the same as Japan. And all the European countries lagging somewhat behind.

But this will be a new world. A world which will be turned upside-down. It will have a new industrial center, and it will have a new periphery, so to speak. And the way that world will look is something for us to explore. The Bering Strait project is a very important project, which will help solve the issues that will come up, and prevent a clash between the great powers, and it is one way of cooperating, but it also means that the great powers will have to change their policies, and that applies also to the United States. It's not just the Bush policy, it's all the previous policies except for Franklin Delano Roosevelt.

The overall conclusion is: Yes, this is a project that is becoming real. But we have to look at it as the only way, as Lyn put it, to save this civilization. It is one of the tools of saving this civilization, but it's also a very difficult task. And it also means a radical change in political and economic policies in most of the countries of the world.

Thank you.

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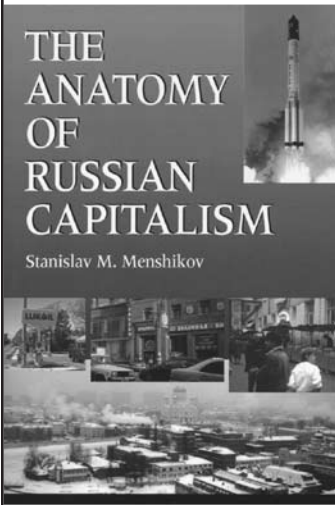
**Zepp-LaRouche:** I should just say that, while the worries of Professor Menshikov are well taken, I would like to add a little more optimistic note, because we are in truly revolution-

ary times. The old system is definitely coming to an end, and we are really talking about reconstructing the world from a potential rubble-field.

I should also note that one important American, outside of Mr. LaRouche, who would have liked to be here, except he had to chair his own conference, which was pre-scheduled, is very much for the Bering Strait. That is the former Governor of Alaska, Walter J. Hickel, who just gave an interview to *EIR* about this project.

We plan to organize a constituency, both in the United States and in other countries. You mentioned the Chinese, already. The Japanese, and even the Koreans, want to be part of this project. We don't approach this as just simply something which is going to happen, or not going to happen, but since the very survival of civilization depends on our ability to put this program of a global reconstruction on the table, I think that it really will happen.

I should say that we talked to Academician Alexander Granberg at your [Professor Menshikov's] birthday party. He would have been here, except that he has another important conference, in Khabarovsk, this very weekend. So, there is, right now, tremendous excitement over this project in many countries of the world. We should take it as a fighting perspective.



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