

Czar Alexander II and Vladimir Putin

The Czar was no genius in statecraft, but a reformer who made Russia's recovery possible after the Crimean War. Michael Liebig reports.

Early this month, for the first time in several years, my wife and I travelled to Russia as the guests of an old friend, and visited St. Petersburg and its surrounding area. Our discussions with Russian politicians and journalists point not merely to a consolidation, but to marked improvement in the country's situation.

The real economy has made definite strides forward, after the devastation caused by "shock therapy" reforms beginning in 1992: hyperinflation that vaporized the population's savings, a plunge in the standard of living, declines and disruptions in every sector of tangible goods production, and a plague of criminalization. Russia has begun once more to produce for herself. This recovery began after the 1998 financial crash, following which imports, hitherto massive, collapsed. Owing precisely to that stream of imports, the domestic Russian economy had, save for the energy and raw-material sector, broken down. Since 1998, the trend has been steadily upwards. In 2003, industrial production rose by roughly 10%, and GDP by 7%.

Consumer goods for the domestic market are again being produced in Russia, as one can see with one's own eyes when out shopping. Even the foreign brand-name products on offer are Russian-manufactured. Over the past five years, the upswing in domestic production has afforded the middle and lower classes a visible, if modest, improvement in living standards, although 30 million Russians still qualify as poor. In 2003, thanks to this stabilization and improvement in living conditions, the catastrophic decline in the birthrate reversed for the first time since 1989.

The most dangerous problem facing the Russian economy is the stark difference in development from one region to the next, and not the manifestly special situations of Moscow and St. Petersburg, relative to the rest of the country. In most of the large cities and provincial towns with some industrial basis, the situation has improved, though modestly, and the same applies to the agricultural areas in southern Russia. The problem, is the territories North of the Arctic Circle, and broad stretches of Siberia and the Far East. Here, the picture is so critical that, in large numbers, people have begun to migrate to the more prosperous areas.

That Russia be so divided, from an economic standpoint, constitutes a threat to the unity of the Russian state. Neo-

conservative circles in the United States are well aware of this, as one gathers from the book *The Siberian Curse*, by Clifford Gaddy and Fiona Hill. The authors argue that Russia, in her present weakened condition, can no longer "afford" Siberia—while huge American firms are plainly ready to move in and loot its treasure-chest of raw materials! It so happens that Siberia is the linchpin of the entire Eurasian Land-Bridge; that these neo-conservatives seek to fish in troubled waters is hardly surprising.

The economic divide is critical to understanding President Putin's confrontation with "the oligarchs." The latter, whose stand against Putin has been highly confrontational, will now be barred from playing any further role, whether economic, or political: Berezovsky and Gusinsky live in exile, while Khodorkovsky, for the time being, is behind bars. Another group of seemingly "loyal" oligarchs, typified by Mikhail Friedman and Pyotr Aven of the Alpha Group, or Anatoli Chubais, who controls the Russian electricity grid, remains.

The Alpha Group enjoys, by the way, close ties to Dick Cheney's Halliburton. In the late '90s, it was Cheney, then CEO at Halliburton, who intervened to ensure that the U.S. Exim Bank guarantee half a trillion dollars in credits to the Alpha Group.

'Natural Rent'

The oligarchs' powerbase was, and remains, the energy and raw materials sector. This is where the super-profits are made, to vanish down deep, private pockets. That both the country's overall economic development and the overcoming of regional differences will depend on applying most of the profits from that sector to the critical investment areas, is a fact President Putin cannot be unaware of.

The idea of taxing profits from the raw materials trade stems from Academician Dmitri Lvov, of the Russian Academy of Sciences. Sergei Glazyev, a prominent economist and co-chairman of the Rodina electoral bloc, has made the proposal into the bloc's central demand. In the parliamentary elections in December, Rodina garnered over 9% of the votes. Glazyev has for years been in intense discussion over political and conceptual issues with U.S. Presidential candidate Lyndon LaRouche, is familiar with the Eurasian Land-Bridge proposal, and with the central role LaRouche sees Russia



Russian intellectuals are invoking role of Czar Alexander II, to describe President Putin's current efforts to rebuild the country.

playing in that context.

Although taxing raw-materials profits would, indeed, be an important step toward Russia's economic development, the 20-30 million euros this would represent will nonetheless scarcely suffice, relative to the magnitude of industrial and infrastructural projects required to overcome the divide we have spoken of.

To get a grip on the debacle into which the North, Siberia, and the Far East are now plunged, there is no alternative to making the Eurasian Land-Bridge a reality. Neither the raw-materials-profits tax, nor the currency reserves of the Russian Central Bank, which now amount to \$100 billion, will suffice to finance the needed Land-Bridge projects in Russia. What is required are financing methods and arrangements which would be out of the question, within the framework of the International Monetary Fund system as now constituted, a system to which Russia belongs.

Thanks to the ever-worsening dollar crisis, it has become clear to the Russians that their country is not alone in undergoing severe economic hardship. Meanwhile, the profits made by the Russian elite and the oligarchs, invested abroad in dollar-denominated investments, melt away—as do those of much broader layers of the Russian population, who have something in the area of \$150 billion in dollar-denominated savings.

As the Russian Central Bank has closely tied the ruble to the dollar, the fact that the latter dropped in value by 20% in 2003 has not yet hit people holding small savings, with full force. But there is widespread disillusionment in Russia over the dollar and the real condition of the U.S. economy. America, seen for so long as a model economy, has lost its halo. No longer do the country's foremost specialists seek to emigrate, because the Russian people knows what it means when a domestic economy—the U.S. one in this case—can

no longer feed its own people, but imports, on credit, \$500 billion more goods than it exports.

Faced with the international financial and economic crisis whose epicenter is the United States, many in the Russian elite have stopped arguing that LaRouche's New Bretton Woods proposal for reorganizing the world financial system is pie-in-the-sky. One should point out here that Russia has the second-largest gold reserves in the world, a major factor in its sense of financial-political independence.

Russia's Place in the World

The fiasco bearing down upon the U.S. occupation forces in Iraq has very seriously dented any credence Russians might have had in America's "overwhelming superiority," reminding them, as it does, of what their own country went through in Afghanistan in the 1980s.

The country's politics and world outlook give one a clear sense of a growing national consciousness. While, on the one hand, Russia will seek to avoid all confrontation with the United States, neither can it accept a unilateral world order, and certainly not a preventive-war doctrine. From both a quantitative and qualitative standpoint, the country's nuclear defenses are guaranteed for decades, and Russia will remain a world power. No matter how vexing, unsolved problems like Chechnya will remain marginal.

Though Russia be concerned to develop strategic cooperation with China and India, its leaders are aware that the other partners in the European Triangle are just as keen to work alongside her, notably the European Union, the latter being Russia's major economic partner. Seen from the Russian side, strategic and political cooperation with the EU will essentially depend on how tightly and effectively France and Germany coordinate their efforts, and act upon a joint strategic outlook.

In discussions with Russian politicians and intellectuals, the parallel between the country's position after losing the Crimean War (1853-56), and that in the first decade since Soviet rule, was often drawn. Vladimir Putin is being compared to Czar Alexander II, not, perhaps, a genius in statecraft, but a significant reformer nonetheless, and one who made Russia's recovery possible.

Real Issue Is Spiritual

At present, Russia has a Presidential Administration, which holds sway over the government and Parliament. The "loyal" oligarchs who enjoy—both in Parliament and in the Presidential Administration—political influence in the pro-Putin party known as United Russia, have now, in the form of Glazyev's Rodina party, met up with a significant parliamentary counterweight. That Putin has openly approved the Lvov/Glazyev proposal to tax raw-materials profits points to this. Vis-à-vis the "loyal" oligarchs, the stand thus taken by Putin and the Presidium appears to be something along the lines of, "We shall let you count your money in peace, provided you invest, produce, and help the economy to move forward."

Given the critical role played by the Russian President at the present time, one cannot, however, overlook the danger that there be covert pockets of resistance to the Presidency. In France, in the early '60s, as General de Gaulle launched a huge wave of economic and political reforms, the Organization of the Secret Army (OAS) perpetrated several assassination attempts against him.

No one would venture to claim that corruption and nepotism have been rooted out in Russia, but one can say that in this respect, things are much improved relative to the 1990s. The systematic mafia rule proclaimed against the Russian state, by organized crime, and by both foreign and domestic economic interests, has withered away, as the balance of power shifts in the state's favor. Nevertheless, and although the higher-level public agencies are now run more ethically, and more competently as well, on a lower administrative level there remains the problem of a fossilized bureaucracy, a dead weight obstructing entrepreneurial initiative, flexibility, and progress.

At the end of the day, according to many of our interlocutors, the real issue for Russia is a spiritual one. How can Russia's rich cultural, scientific, and religious heritage become the focus of the educational system once again, a heritage that has recently tended to be put aside, just as we have done in Europe over the last 30 years, through all manner of alleged reforms? Russia has an extraordinary tradition of Classical education and science, which persisted throughout the Soviet period, and that could today be brought together with a renaissance of Orthodox religious belief. No matter how important the various forms of entrepreneurial and economic knowledge may be, the country's real strength will lie in her Classical education system.