

The Challenge Facing Russia In the Systemic Global Crisis

by Rachel Douglas

By the week of Sept. 15, it was clear that the global financial crisis would drive the Russian leadership to take emergency action. Gone were Finance Minister Alexei Kudrin's assurances about Russia as a "safe haven" in international financial storms. President Dmitri Medvedev's vision of Moscow as a world financial center, and his and Prime Minister Vladimir Putin's desire to strengthen the ruble to regional reserve-currency status, suddenly appeared in a whole new light, as Russia experienced a stock market plunge, serious capital flight, and a liquidity crisis in the banking sector.

It was likewise clear, that the Russian response to these events could go far beyond pragmatic, ultimately barren crisis-management. Being global, and systemic, the current crisis forces certain paradoxical issues of Russian policy. How can the national economic strategy combine long-term, high-technology development in manufacturing and infrastructure, with allegiance to the rules of a speculation-based global financial system that is now imploding? Will Russia take leadership in guiding Eurasia, and all humanity, out of a threatened



Presidential Press Office

Russian President Dmitri Medvedev at a meeting on the economic crisis, in the Kremlin on Sept. 18.

new Dark Age, through interaction with a United States whose top officials have recently exuded hostility toward Russia?

That is the challenge defined by Lyndon LaRouche's "Four Powers" idea of Russia's taking the lead, with

Medvedev: 'Talk to Russia'

The United States, instead of "trying to be clever," must begin discussions with Russia on how to overcome the consequences of the crisis on the U.S. stock market, Russian President Dmitri Medvedev said on Sept. 19. He said that the problems caused by the U.S. crisis had spread to all market economies, and would not have had such serious repercussions, if an agreement had been reached during the G-8 summit in Japan in July.

On Sept. 18, Medvedev had said at a reception for new ambassadors to Russia, that Russia and the U.S.

can maintain a constructive dialogue despite their differences: "Despite a number of significant disagreements on certain international issues, we are convinced that we have what it takes to forge a constructive dialogue on a long-term basis," Medvedev said. He called ties with the U.S. one of Russia's foreign policy priorities, Novosti reported.

"The history of Russian-U.S. relations has seen plenty of imbroglios, but invariably common sense and pragmatism have prevailed." There are good foundations for relations, based on political dialogue, trade and economic relations, and investment activity. "It would be politically short-sighted to fritter away these achievements and get back to the old stereotypes," he said.

China and India, in working with the U.S.A. to initiate a New Bretton Woods system, to save the physical economy of nations, and give mankind a future.

Sept. 15-19 was a week of emergency meetings. “The crisis on world financial markets has proved worse than predicted, in even the most pessimistic forecasts,” Medvedev told an extraordinary government session on Sept. 18, as trading was suspended on the main Russian stock exchanges. Although Russian share prices had been down 37% since May, at the beginning of the week (over 50%, by its end), a prominent Russian economist told *EIR*, it was assumed in Moscow that this was part of a worldwide correction, which Russia could ride out. Thus, the Kremlin was not prepared for crashes of as much as 18% in a single day.

On Sept. 9, the Russian Central Bank started injecting liquidity into the market, through \$10 billion in one-day loans. On Sept. 15, Putin demanded to know from Kudrin, what the impact of the Lehman Brothers and Merrill Lynch debacle would be in Russia. The next day, Putin announced that the Finance Ministry and Central Bank had pumped 475 billion rubles (over \$19 billion) into Russian markets. At the Sept. 18 meeting, Medvedev said that up to another half trillion rubles would be allocated to stabilize the markets, in the form of government loans to the state savings bank Sberbank, VTB (the former Foreign Trade Bank), and Gazprombank; these could lend to other banks in need of liquidity.

Although Russia’s state debt has been nearly completely paid down in recent years, and although Russian economists hurried to note that the stock market plays less of a role in Russian business, than is the case in the West, there was no pretending that Russia could remain insulated from the global crisis. Russian banks and other companies have \$10 billion in loan payments to foreign creditors due in September, and \$45 billion in the fourth quarter, under conditions abroad that make refinancing problematic. The banks also have hefty tax payments due in October. After the Sept. 18 meeting, the Central Bank and Finance Ministry announced a temporary slash of bank reserve requirements, interest rate reductions, and some oil export tax breaks, aimed to maximize the liquid funds available to large companies and banks. Kudrin acknowledged that capital flight was not negligible, as foreign investors withdrew funds, in their panic to meet obligations.

Putin said Sept. 19 at the Seventh Sochi Investment Forum, however, that neither the National Reserve

Fund nor the National Welfare Fund—the current form of the approximately \$200 billion Stabilization Fund, accumulated from oil export earnings duties since 2004—would be tapped to support the financial markets. The President, the prime minister, and the finance minister all cited Russia’s more than \$500 billion in gold and foreign currency reserves. Putin voiced a commitment to build a strong and independent financial system.

The Post-1971 Perspective

Ten years ago, global hedge-fund-driven speculation crashed the ruble and the Russian government bond pyramid, forcing default on Aug. 17, 1998. Those events also forced the beginning of the end of the disastrous reign of undiluted monetarism, imported from the London Institute of Economic Affairs and Harvard Business School under President Boris Yeltsin, through which Russia’s real economy had been looted since 1992. Today’s Russian leadership is far better positioned to act, than was the case a decade ago. But the type of action required, in an interconnected world, is more profound. The potential for Russia to meet the challenge of leadership for an entirely new global system, has been signaled by leading figures, including Medvedev and Putin.

One signal was a Sept. 16 article in the economics supplement to the government daily *Rossiyskaya Gazeta*. Journalists Alexei Chichkin and Yevgeni Vasilchuk quoted LaRouche at length, on what was wrong with the post-1971 floating-exchange-rate monetary system. They dealt with the urgent need, especially for raw materials-exporting countries like Russia, for a monetary system that protects each country’s sovereignty. Dollar/raw materials speculation, they noted, was an important factor in the crash of the financial and economic system of the U.S.S.R. in the late 1980s. Because of the renewed threat to national economies, the Russian authors said, “some experts are calling to return to pegging national currency rates to the average world prices for gold or platinum.” Then followed an excerpt from LaRouche’s April 15, 2004 lecture at the Moscow Academy of Finance and Law, on how the floating-exchange-rate system had given “the Anglo-American financier interest” an “imperial dictatorship over the world’s finances,” especially through “the London market, which is the center of world speculation.”

In the wake of Georgia’s attack on South Ossetia, and the decisive Russian military response, Moscow had al-

ready, in August, taken steps to defend its economic sovereignty. These included reinstatement of protective tariffs on some agricultural imports, which had earlier been cancelled to meet requirements for entering the World Trade Organization. Like September's liquidity infusions, this was a pragmatic move; WTO member Georgia stood ready to block the Russian application, at least if Mikheil Saakashvili remained in power.

The Lincoln and Roosevelt Precedent

Indications of a more thoroughgoing rethinking of policy have appeared in discussions at a meeting of the State Council, and in commentaries published by Academicians Andrei Kokoshin and Sergei Glazyev.

President Medvedev met Sept. 7 with Russia's regional governors, convened as the State Council, for a policy review in the aftermath of the South Ossetia crisis. According to Gov. Boris Gromov of the Moscow Region, "The main point of the session was . . . national security in the military, food, and industrial areas. What was stressed was the internal development of the country, plus preemptive steps from the standpoint of defending the interests of the country and its citizens." Media reported this account as reflecting a shift in Russian economic and security policy, as well as foreign relations.

Economist Glazyev, interviewed Sept. 16 on radio Ekho Moskvy, disputed Sen. Barack Obama's comparison of the current crisis with the Great Depression of the 1930s, calling that a mere "PR opinion." There is an "essentially different," worse situation today, because the "structural crisis" of the economy is compounded by "the collapse of the financial pyramid, which the U.S. built through the unrestrained printing of dollars," said Glazyev. Huge amounts of derivatives "have driven this pyramid to gigantic dimensions."

In Glazyev's view, "The crisis will intensify, ending in the inevitable disintegration of the current global financial system." He anticipates chaotic fragmentation, unless "the world financial community, in the person of the Group of Eight, immediately propose to the world a new financial architecture, which would be based not on the American printing press, but on a balanced monetary policy on the part of the world's leading nations." The dollar would have a role, as would the Chinese yuan and the Russian ruble.

In an Aug. 14 essay on the financial crisis, Glazyev asserted that it would not have developed as it did, had leading authorities paid attention to the hearings he held

in the State Duma in June 2001. The lead witness he invited to those hearings was LaRouche.

While Glazyev has fought global monetarist policies for 15 years, Kokoshin is a senior member of the State Duma from the regime's main party, United Russia. He told RBC.ru Sept. 16 that the world financial crisis resulted not from U.S. mortgage lending alone, but from 20-25 years of Western bankers' "opportunistic" policies. Now the banks have "lost control," and it is time Russia stopped "paying homage" to them, and, rather, took part in settling the crisis. Kokoshin called for Russia to consult with its Asian partners.

Academician Kokoshin is a leading specialist on the United States and strategic affairs. In February 2006, he called Franklin D. Roosevelt "one of the greatest statesmen, not only of the U.S.A., but in world history," and "a symbol of truly mutually beneficial and equal cooperation between the U.S.A. and our country" (*EIR*, Feb. 23, 2007).

Indeed, the seemingly impossible—but, in reality, eminently possible under conditions of a tectonic crisis—touchstone of *Russian-American cooperation* in the face of global strategic necessity was cited this same crisis week of Sept. 15 by Prime Minister Putin. Interviewed in the Paris *Le Figaro*, Putin said what he expects from the next U.S. administration: "I expect that relations should improve, but it is up to the Americans to make the effort, because the situation has deteriorated due to their sole responsibility. *During the time of Lincoln, an American Secretary of State said that the United States wanted privileged relations with Russia, because Russia always desires the well-being of America.* Since that time, a lot of water has flowed under the bridge. Our relations, depending on the moment, have had different characteristics. But always, when situations became extreme, the United States and Russia found themselves side by side. This was the case during the two World Wars. Russia will never forget it, and hopes that our American partners won't either."

People with some historical memory had to notice that this statement came within days of Putin's warning that Russian relations with Britain will never improve, as long as London remain a base for anti-Russian relations, and that Foreign Minister Sergei Lavrov, in a Sept. 1 speech, cited the importance of studying Russian diplomats of the 1850s and 1860s—a time when Russia had the Crimean War with Britain, but an alliance with Lincoln's America against the British-sponsored Confederacy.