

# Political Change in Russia and Prospects for a New Bretton Woods

In last week's *EIR*, we published a first report on our international seminar in Berlin on June 27, which was titled, "For a New Bretton Woods System." We included the keynote speech by Lyndon H. LaRouche, Jr. ("We Need a New Bretton Woods To Defeat the Evil of Globalization"), and presentations by Dr. Clifford Kiracofe ("The U.S.A.: Fascism Past and Present"), Jeffrey Steinberg ("We Can Beat Rohatyn and the Synarchists"), and Helga Zepp-LaRouche ("Stop the Synarchist Takeover in Berlin"), as well as Lyndon LaRouche's remarks to members of his youth movement on June 28, "On the Subject of Truth."

About 40 LaRouche activists attended, along with 70 guests, including senior politicians and scientists from Russia, Poland, the Czech Republic, and Slovakia.

We continue here with the presentations by three Russian analysts: economist Dr. Stanislav Menshikov; physician and writer Dr. Konstantin Cheremnykh; and economist Prof. Andrei Kobyakov of Moscow State University. Other speeches will be published as they become available.

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## Dr. Stanislav Menshikov

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### Good News and Bad News From Russia

*Dr. Menshikov, a Russian economist, spoke during the afternoon session of the seminar, which was moderated by Dr. Jonathan Tennenbaum.*

I want to tell you about some recent developments in Russia, that pertain to the discussion that we had this morning about currency, about the New Bretton Woods and so on. And I must tell you that everything that comes from Russia is always a combination of a good news story and a bad news story.

Now, I'll start with a good news story. I think maybe in the West very few people noticed a statement made by the First Deputy Prime Minister of Russia, Dmitri Medvedev—who might be the next President of Russia, by the way. He's

one of the men that Mr. Putin has picked for succession. Not necessarily will he be the President, but he's one of the men that are being watched.

And so, a couple of weeks ago, at an economic forum in St. Petersburg, Mr. Medvedev made a very important statement about the world economy. There are things there that I, as usual, disagree with, but there are things that I agree with. One of the things I thought very important, and want to call your attention to, is the fact that he says that we, if we go along, integrating into the world economy—and that's the term he used, "we want to integrate into the world economy"—but, if we want to integrate, we can't go on with the monetary system that exists now, because it is based on a system that has too big fluctuations in exchange rates. He didn't say exactly that he wanted to have fixed exchange rates. But I think that that was a very important statement, showing that the Russian government is coming to the point when they realize that reform in the monetary system is needed. And if they had thought about this before, they may have put this as an important point on the agenda of the G-8 meeting that is going to happen in St. Petersburg in July.

But they haven't thought of it, and instead of that, they put other points. Well, maybe if we work on it further, all of those who are in favor of this reform, of the New Bretton Woods, we may convince the government, the Russian government, to start proposing this officially. And that is very important, because now LaRouche and his followers in the United States can know that they have supporters, official supporters in Russia. It's not just a bunch of professors who are saying that. It is one of the top government officials in Russia, who may become the President of Russia, the next President of Russia. And we should, as the Russians say, "catch him on his word." Catch him on his word and try to develop this idea, and support him in that idea. Because that is really something that brings them closer to this Bretton Woods system. Of course, he may not even know about this reform, in that detail, but I think that is a good news story.

### Currency Reform

Well, there are other kinds of stories, which I don't know how to qualify, whether they are good news or bad news, but also about our currency. What Medvedev also said, was that



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*Dr. Stanislav Menshikov: "Maybe if we work on it further, all of those who are in favor of this reform, of the New Bretton Woods, we may convince the Russian government to start proposing this officially."*

he wants the ruble to become one of the reserve currencies in the world. It is not a reserve currency yet, he said, but we want to make it a reserve currency. And the way to make it a reserve currency—and Putin said the same thing on other occasions—is to make those who want to buy things in Russia, pay rubles for them, instead of paying dollars for them, or euros for them. And what they already have started with, is creating an additional commodity exchange in Moscow, where you can buy, or where foreign companies can buy, oil for rubles.

Well, they don't suppose that the big companies will start selling oil on that market, I mean big Russian companies. But as far as the independent producers of oil in Russia go—and they constitute maybe up to 20% of the total production of oil, of petroleum [products] and oil—they have an outlet here. They don't have to go to Europe to sell their oil, or to the United States. What they can do is to sell that oil at a Moscow commodity exchange, for rubles.

Will that plan work? Is that a beginning of creating a ruble as a reserve currency? I don't know. This is what I call "the big question-mark story." But it is an interesting step in the direction that the Professor [Wilhelm Hankel] this morning was telling us about, this new mixed-currency space, in which the ruble may participate, *if* it becomes sufficiently important as a reserve currency. I remind you that Mr. [Sergei] Glazyev

said something of the same kind a year ago, but at that time, we all thought it was kind of a strange proposal, probably an unrealistic proposal. But a year has passed; things are changing fast.

A year has passed, and here you have the government of Russia talking about making the ruble a reserve currency. Of course, if it is a reserve currency, it has to be fixed to the dollar and to the other currencies in the world, otherwise it will be another one of those widely oscillating currencies which don't suit this work, at all.

At the same time, the Russian government is pursuing a kind of strange currency policy. It's changing the rate of the ruble to the dollar every day. Every day, they quote the dollar/ruble exchange rate, and if you watch the oscillations in that rate, they're larger even than the oscillations of the dollar against the euro. Why they do it, I have no idea, but this is some crazy idea of our central bankers, probably.

There are also monetarists in that bank, associated with the government, who think that if they raise the rate of the ruble towards the dollar, that will help them beat inflation inside Russia. Well, theoretically, you can think that this is possible by bringing down import prices, which are an important component of the whole price determination mechanism in Russia. However, while that is true, the idea—they keep repeating that—the idea that the ruble is becoming higher in value as against the dollar, I think is a stupid idea, because inflation in Russia is in the area of 9-10 or 11%, while inflation in the United States is what? As I heard here, about 3%, or what? Is that true?

**Lyndon LaRouche:** [off mike, paraphrased] It's hard to say. These are official figures.

**Menshikov:** Well, there are official figures, unofficial figures, but at least it's much lower than in Russia. And if it's lower than in Russia, I can't understand why the ruble is appreciating towards the dollar. I think, this is not really possible. So, that's a kind of a bad news story.

**LaRouche:** The problem is, it's appreciating because the primary materials prices are being speculatively increased, where other commodities are not.

**Menshikov:** Well, maybe it's a kind of a speculative effect, but anyhow it's part of the bad story.

### The 'Stabilization Fund'

Now, point #2 that I want to contribute to: and that is, because the balance of payments of Russia has been positive continuously for the last few years, because of high oil prices or high gas prices, we're having a surplus that is being accumulated as a reserve. Not only as a currency reserve. Our currency reserve is already \$200 billion. It's more than \$200 billion and it's approaching, though still far away from them, the Chinese, the Koreans, and the Japanese. But we're becoming one of the largest currency-reserve countries of the world.

But, besides that, the government is accumulating what

it calls a Stabilization Fund. The Stabilization Fund, these petrodollars that are not being used inside the country, are being kept in reserve, in case the price of oil falls suddenly. Now the government has been criticized for doing that, for not spending even part of that Stabilization Fund—and the amount of that fund has now exceeded \$70 billion, and using even part of it, would be an important contribution to capital investment inside Russia, which is lagging behind and keeping the country from developing faster.

So that's the bad news story. The government is clinging to that, and somebody has convinced the President that he shouldn't spend any single ruble from that Stabilization Fund, inside the country. Spend it only for paying the debt to the Paris Club; spend it for covering the debts of Russia and the former Soviet Union. But don't spend it for internal purposes, because this allegedly will bring along more inflation. This idea, the crazy idea of the direct relation of government spending with inflation—whatever you spend it for, it creates inflation, as if every ruble spent inside the country creates price increases.

Well, I'm not going to go into a polemic about this infla-

tion theory, but, the good news story is that the government is kind of receding on that point—but without recognizing that it has made an error before. It is doing two things at the same time: Thing #1, is clinging to the same Stabilization Fund, but investing it into foreign securities. Foreign securities: 40% into dollar securities, 40% into euro securities, and the other 20% into pound-sterling securities. The big question here, is if you are investing in foreign securities, why don't you invest in Russian securities? Why don't you invest it in capital investment inside Russia? And if your foreign securities give you 5%, or 6%, or even 7%, why don't you invest in—and there are possibilities of investing in Russian firms that will pay you 12%!

**Tennenbaum:** Which is so-called “sterilization.”

**Menshikov:** I know they call it sterilization! But they also say that any money you give to Russian businessmen will be stolen! But if you give it to a businessman who pays you back money in time, and pays you 12% per annum—what he does with that money is his business, but the fact is, he will give this money back to the government and the government will receive a higher return. It's better than

## Stanislav Menshikov

The economist Professor Stanislav Menshikov is one of Russia's leading experts on the United States, as well as on Russia's own economy. He is able to draw on over half a century of research and experience in both countries. After teaching at the Moscow Institute of International Relations in the 1950s, Dr. Menshikov worked at the Institute of World Economy and International Relations (IMEMO) of the Soviet Academy of Sciences, and the Institute of Economics and Industrial Organisation, which is affiliated with the Siberian branch of the Academy of Sciences. He has also taught at Moscow State University, Novosibirsk State University, Tinbergen Institute and Erasmus University in Rotterdam, and the University of Aalborg, Denmark. Since 1997 he has been co-chairman of ECAAR-Russia, the Russian branch of Economists Allied Against the Arms Race.

The books Prof. Menshikov wrote about the American economy, and U.S. political tendencies and factions, provided a highly differentiated picture that was unusual for the Cold War period in which they appeared. Among them were *U.S. Corporations in World Markets* (1958) and *Millionaires and Managers* (1966). Toward the end of the Soviet period, the book *Capitalism, Communism, Coexistence* (1988) appeared, comprising a series of conversa-

tions between Professor Menshikov and his longtime friend and professional associate, the late Prof. John Kenneth Galbraith.

During the past decade and a half, Dr. Menshikov has turned his keen eye to developments within Russia, and its relationship with the globalized economy, in *Catastrophe or Catharsis? The Soviet Economy Today* (1990, 1991), and *The Russian Economy: Practical and Theoretical Aspects of Transition to a Market Economy* (1996). His columns in the *Moscow Tribune* and *Slovo* weekly are read eagerly by people in many countries who want to understand what is happening in Russia.

Professor Menshikov's major study, *The Anatomy of Russian Capitalism*, came out in Russian in May 2004. It explores the conflict, within the Russian economy and the country's politics, between the interests of the state, and Russia's citizens, and those of the industrial and financial oligarchy that formed rapidly during the 1990s. The author not only dissects the economic structures that emerged from the first period of “wild” privatization, but he goes on to explore optimistic possibilities for “the transformation of the state sector into the main engine of growth in the Russian economy, countering the stagnation brought on by the oligarchical form of organization,” as he puts it in his Introduction to the forthcoming English edition. That English translation of *The Anatomy of Russian Capitalism*, updated to include the dramatic reconfiguration of control over the Russian economy during 2005-06, is in preparation for early publication by *EIR*.—Rachel Douglas

investing it into foreign securities.

That's part of the story. Then, suddenly out of the blue sky appears what they call an "Investment Fund." Which is the same petrodollars, but they're put in a different fund with a different name. And that, you can spend inside Russia. Nobody objects to that. And already they are working on putting that money into road construction, highway construction between Moscow and Leningrad [sic], Leningrad and Helsinki, maybe other highways, also. Into building a new chemical factory somewhere for some purpose; into a capital project for building up industry in the lower part of the Angara River, where the new big Boguchan electric dam is being created. It was started during the Soviet time, and then *stopped*, when Yeltsin came to power. And now, suddenly, the government has found money to invest into that dam. I mean, it will give the money to private interests that will do it. But that's a rational way of doing it. Nobody's telling the government to just go out and spend it. Give it as a long-term credit, a long-term loan to private interests, and they will do the job for you.

So this is already a good-news story on that point.

## Transnational Operations

Point #3. First was currency; second, Stabilization/Investment Fund. Number 3 is, if you look at Russian industry, you will find that it is going transnational these days. And that's a new development. I mean, a year ago we wouldn't have talked about that. Even half a year, in December, I wouldn't be talking about that. Well, you could see some signs of it.

Gazprom is going transnational, not only in the sense that it is building new pipelines into the West. Not only that, but it is going transnational—not only in the sense that it concluded contracts with Japan and China to build pipelines going *east*, not just west, but east from Siberia. But also, Gazprom is proposing to buy gas-distributing companies in some of the Western countries. It has suggested to do that in Britain; it has already done the same, I think, in Denmark; it is suggesting to do the same in the Netherlands. It is trying to get into the distribution system in Western Europe to control part of that distribution system. That's Gazprom.

Now, that is creating a *fuss* in the West. Particularly, for some reason from the United States. Condoleezza Rice, on her visit to Greece, was trying to talk the Greek government out of supporting contracts to build pipelines from Turkey, to Greece, through Greece, to Hungary, and then over to Western Europe. Gazprom has already built this so-called Blue Stream pipeline under the Black Sea to Turkey. This is a way to transport gas to Western Europe, and it needs that gas—around Ukraine. Why around Ukraine? Because in Ukraine, the U.S., the Bush Administration, has subsidized the Orange Revolution, which continues—the government of that Orange Revolution is continuously creating difficulties for transportation of the gas through that country.

Now, we are also building, Gazprom is building another pipeline under the Baltic Sea, which is to go to Germany. I think on the way, it also has to go to Poland. Then it goes along on the way to Netherlands, and it goes finally to Britain. So, again, here, you hear clamors about Gazprom getting "tight control" over Western Europe, and Putin always answers to that, who is controlling whom, after all? Is it we who are controlling Europe, or is Europe controlling our gas supplies?

So, there you have Gazprom actually going international. Other firms are going international, that is, physically going international so to speak, through selling things. But the other way, is that Gazprom is selling close to half of its stock in the open market. For the first time, in many years, they have made an "IPO." This is the first time they are selling stock directly to foreigners. As a result, the market capitalization of Gazprom has increased nearly three or four times in the last few months. And it has become one of the largest companies in the world, in terms of market capitalization.

Other companies of Russia are following the same example. Rosneft, one of the largest companies, which used to belong to the government, is now selling close to 50% of its stock, again, in world markets.

Again, you hear from the West a lot of stories about, "Is it moral to buy that stock from those companies? After all, they're controlled by the government, and that means that the government will introduce political motives into business." And that's a kind of combination of politics in business that the Free World does not accept. Well, after all, it's their business. They want to buy that stock and become rich, or *richer*, that's their business. But here, you don't see much opposition.

## A Political Dimension

Another kind of transnationalization, is the recent story when one of the biggest Russian steel companies, called Severstal, which translates as "Northern Steel," has suggested to buy 33% of the stock of one of the largest European companies, a Luxembourg-based company, Arcelor. And the Indian magnate, the Indian tycoon Mittal, also wanted to buy that company and he suggested the same—which Arcelor rejected at first, and set a contract with the Russian Northern Steel, Severstal. The deal, so to speak, the deal was sealed.

However, last Sunday, the day before yesterday, the Arcelor directors were collected in Luxembourg. Every one of those directors came in with a chauffeur-driven limousine, except for the Prince of the Netherlands, who was driving his own car. Why? He was one of the directors of that company. And he was totally in favor of the Russian deal. However, they sat there for a few hours, and they finally convinced him—I don't know, maybe suggested to him money, I don't know. Did they buy the Prince, or what? But then, suddenly without even hearing new suggestions

by the Russians, they agreed to merge into the Mittal steel, the Indian steel.

Well, that's okay. That's business, you know. You can't buy a company, fine. Somebody else buys the company. But there are two points here, I want to underline: The first point is, who was behind Mittal steel, who was promoting all these people, who, in Europe, were voting against the Russian company and in favor of the Indian company? Who are these "Indian-lovers"? The bank that is behind that is Goldman Sachs, again. That's the same Wall Street situation. It's not Lazard Frères, it's not somebody else, but it is another of those Wall Street companies that is working against Russia. Why in this case? Why did they so much support Mittal? Who is now becoming the largest steel producer in the world? Ten percent of steel production will be now in this combined company. Why is that?

Well, one reason I think, is, that they do not want Russia to profit by using modern technology, modern steel-production technology that is used by Arcelor. I think that's the reason. I don't think there's any other reason. Why should they be afraid of Severstal becoming an owner of 33% of the whole company, while now they're giving 49% to Mr. Mittal?

So, here again, you have this transnationalization, and the fight against that transnationalization when the question of transfer of technology is concerned. And physical transfer is concerned. And practically no objections, when buying stock is concerned—so when you buy something for speculation, then it's okay.

The bad news story, is that I suspect that all these IPOs will make the Russian stock market additionally dependent on Western influences in the stock market, and undermine financial stability in Russia, and also in the emerging countries, in other countries that are connected financially to Russia.

## Eurasian Cooperation

And the final point: In the last issue of *Foreign Affairs*, there's an article by an executive from the Carnegie Foundation, who happened to be a Russian by nationality. His main thesis is, that we have to concede—he says, "we" (he's writing from the American point of view)—"we have to concede that America has failed to integrate Russia into its system of the world economy." That may be a bad story for the United States. Then he says, well, we shouldn't make a Cold War out of that fact—which is a good story.

But also, the other story is, that suddenly, we should realize that Russia is creating its own kind of organized part of the world economy, and that is what we are talking about now, about the Shanghai Cooperation Organization, what you call the SCO. Which is not only a political organization: It is *also* a political organization, but it is also an economic organization. And I remember one of your seminars a few

years ago, when there was a big Chinese delegation—that was way down, somewhere in south Germany. And we talked to them, and we were talking about this triangle, that, at that time, Yevgeni Primakov suggested, a triangle: Russia-China-India. And they were very cautious about this, the Chinese said. There were various reasons for that—relations with India were not too good at that time. But the main thing, they said, "We don't want to antagonize the United States. We'll wait for a while, until we become stronger, and then we will move ahead."

What they are doing now, is, you know, in that organization, its members include China—apart from Russia and the Central Asian Republics of the former Soviet Union, which are, of course, Kazakstan, Uzbekistan, and others. And beside them, the Shanghai Organization includes China, it includes India, it includes Pakistan; it has a representative from Afghanistan. And, it has an observer—Iran as an observer. Iran is an observer.

And the President of Iran went to the last Shanghai conference, and there, talking to Putin, he suggested an interesting thing economically: He suggested to work together with Russia, in terms of selling gas. Because, look, Iran is the second largest producer of gas in the world; Russia is the first largest producer of gas in the world. If we combine, he says, we can control the market—to a certain extent, of course, not fully. But they can control the market. (Maybe some of you are scared of this situation: two potentially nuclear countries, Iran and Russia—I don't think Iran will ever become a nuclear country, but still, controlling between them a large part of the gas market.) But he suggested that.

We don't know whether Putin will agree. But at least, I think he agreed to cooperate in building this new Iranian pipeline that would go to India, through Pakistan to India; and perhaps through Afghanistan, also, I don't know.

I think the Americans, again were not very happy with that.

**LaRouche:** No.

**Menshikov:** I can't see why they weren't happy with Iran selling gas to India. Quite frankly, I don't understand. They're happy with India buying a big chunk of European steel, and unhappy with sales of gas from Iran to India.

But anyhow, here you have a new organization, with big countries, with big ideas.

An incident happened during a previous visit by Mr. Putin to Shanghai, which I just want to mention, and then conclude with that. It was a very friendly meeting between Putin and the leaders of China. But there was one incident: Putin said, "Look we suggested to sell you some equipment, industrial equipment, and you said, 'No, we won't buy your equipment; instead, we're going to buy some Western equipment.' " And he said, "Why is that? You're only buying oil from us; you're only buying gas from us. You're looking at us as suppliers of raw materials, and not looking at us as suppliers of highly

developed industrial product.” And the leader of China replied very simply: He said, “Look, if you have the best product, we’ll buy from you. But your product is not as good as that Western product. So, you’d better make a better product, then we’ll buy from you!”

And I don’t know what Putin thought about this. Maybe he didn’t like that. But on coming back, probably he also thought that “this is a signal: We should invest more into our own machine-building industry, into our own industrial equipment industry. Because we are lagging behind in a way that we can’t supply China any more. We’re losing that market in China. So, maybe China, which has gone so far that it doesn’t need Russian equipment, because it considers it backward, will become a factor in promoting a more reasonable development of the lopsided Russian industry, which is really developing oil and gas, and not developing the machine-building and the other manufacturing industries that we should develop.”

So, these are some of the new things that happen in Russia. And I wanted to conclude with that. Thank you for being interested in that.

**Tennenbaum:** Thank you.

[To LaRouche:] Do you want to say something?

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## The Strategic Game

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**LaRouche:** I’d just say one thing on this. Well, I think there are many things to be said about Professor Menshikov’s report on various interesting developments, but the key thing to realize is that the game right now, is a strategic game. And the game is what the Rohatyn thing typifies: Is that you have a movement of a certain group of international bankers—who called it “globalization”—who are determined to set up a world empire, in which governments become merely (if they exist at all) auxiliaries of international financial control.

You have to look at, most prominently, the fact that the takeover of military functions, away from the professional military by private military organizations, as we’re seeing in Iraq, is the intention, and has been the intention, since 1991, of a force inside the United States and Britain. And what’s intended is that Russia shall not survive as an independent force, and China shall not survive as an independent force. And these peculiarities that you refer to, are, apart from reflections of problems inside Russia itself, but they’re reflections, chiefly, of the fact that there’s a game in town, which is this strategic game. Which I’m very well aware of, and I don’t think civilization would survive for a couple of generations to come, unless we stop this game. We have to beat it, *now*. And it’s going to take some thinking and clarity of mind on some people’s part, to decide, we’re going to join together and stop this game. We’re going to kill it. We have to.