

tary transactions and undermine the whole world economic order, must be eliminated.

As for natural rent, according to the constitutions of most countries and, I think, according to worldwide moral principles, it should belong to those countries which have those natural resource deposits. Here, we must think, maybe, about some kind of international cartels among nations, which will try to keep the natural rent, and to prevent unequal distribution of rents between developed and underdeveloped countries, through transnational corporations or other mechanisms of world trade.

Concerning infrastructure development, I fully support those ideas which Mr. LaRouche has laid out in his speech about the necessity to develop worldwide infrastructure, based on new technologies. It should include not only new transport infrastructure, but also information infrastructure—telecommunications, research and development institutions active on a world level, and world social infrastructure as well. I think the leading nations should bear common responsibility for the supply of basic food, water, heat, and so forth, to the population of the whole world. It doesn't matter where people live.

A New Financial Architecture

The final question, is what will happen to the world organizations? At present, the majority of the world organizations, excepting maybe scientific organizations and some social non-commercial organizations, use obsolete technology to plan and develop their activities. They are based mainly on contributions from countries participating in these organizations; and that obviously means, especially for the main financial organizations, that their policies are determined by the countries that are the main contributors of capital and opportunities. It is not a secret, that the IMF, in fact, is a branch of the American Treasury Department, or the Federal Reserve. The situation is the same with the World Bank. The WTO also is not an organization of independent countries; we know who plays the key role in it. And this is the common picture.

When we speak of a new economic order, we should think about a new architecture of world organizations, which must have opportunities to work at a worldwide level, as a task force. If a worldwide money-creation center appears, it means that world trade facilities will appear together with it. It is very difficult to speak about cheap credits for the whole world, in different countries, if you do not have a world financial system. So, when a world currency is established, it means that the world organization in charge of this currency, should be under the control of the nations which organize this mechanism, and also have the opportunity to create and organize cheap credit, all over the world.

Of course, such ideas could not be implemented immediately; I think it is a step-by-step process. But in any case, we should think about creation of international investment

opportunities which will be controlled by the nations, but will be based on their own economic activity. For instance, we could think about a worldwide tax on transnational corporations. Or a worldwide tax on currency speculation. And this taxation, at least on speculative operations, could be used to finance the infrastructure projects, necessary for all of mankind.

In order not only to think about all these opportunities, but to implement them, we need political will, and I hope that this conference will contribute to it. I totally agree with Mr. LaRouche that Russia could play—and perhaps will play—a very important role in establishing this new world architecture, but unfortunately the Russian President is not among the participants in our conference. So, we have a lot of problems in all countries. I hope this conference will help us to solve these problems and to find the way out of the financial catastrophe. Thank you.

Prof. Stanislav Menshikov

Russia Prepares for The Financial Crash

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Thank you very much. It's a pleasure to be here again. I have been here a few times. I don't even remember how many, exactly. Starting with Bonn, Bad Schwalbach, now for the second time. Then there was another conference around here. I think it's the fifth or sixth time, and I hope there will be many more occasions. As I noticed, the substance and the effect of this conference is increasing. It's not decreasing, not going downhill; you are going uphill.

After all the discussions about these global problems, let me say a few words on what I think might happen to Russia when the great crash comes. I think that the situation—as far as it concerns Russia—is dangerous, but not fatal. Why?

Number one: Two years ago, we still had an evil dummy in the Kremlin, Mr. Yeltsin. This was our Bush, in a certain way. Because a lot of things he did, led to the destruction of the Russian economy. If he were still around, I would say there wouldn't be any hope. If a crash came, Russia would certainly crash, together with the whole world. Nothing would help it. But, he is not there anymore.

And Putin is not a dummy. He has his weaknesses, but he also has a vision of reviving Russia, which is very important.

And he is supported by the people. Remember, when Yeltsin was running for his second election in 1996, he started with an 8% popularity rating, and it was only the “free” press and the “free” television that boosted his popularity to the point of winning. Putin has now a popularity of 70%, and he is keeping that popularity, in spite of all the difficulties and problems that the Russian people encounter.

Yesterday, one of our African colleagues was complaining that, in his country, people are living on \$1 a day, I think he said. Well, \$1 a day is \$30 a month. That’s the average pension in Russia. That is, 30% of the Russian population are living on \$1 a day. That is the result of that dummy that was in the Kremlin for a long time. But it also shows, that our problem is a common problem with some of the poorest nations in the world, including Africa. We understand those problems, yes. We have a lot of poverty in our country, and we understand that. So when we say, “Eurasian”—and I shall come back to that—we also always think, yes, of course, also of Africa, and also the other countries of the Third World. So, we can’t have a dummy anymore, and have to prepare now.

Putin is open to advice from various sources, including the right sources. He is also open to the wrong sources, unfortunately, but he is also open to advice from the right sources.

Number two: We don’t have any bubble anymore inside our country. See, when you have a bubble, the bubble is bound to burst. You have the Nasdaq bubble that bursts. We had a double-bubble, I would say: the government domestic debt bubble and the foreign speculation bubble, which Dr. Glazyev referred to. Both bubbles burst in 1998. It created a lot of trouble for the economy. We are fortunate to have this in the past.

Number three: After a long crisis under Yeltsin, Russia has now started to recover and grow economically. Starting with the Primakov government, and then with the Putin government. Growth in 1999 was 3.2%—not very much. In 2000, it was around 8% Gross Domestic Product growth—a very respectable growth rate. And this year, it will be probably about 4%. So, Russia is growing. And the answer to the great crash, is continued domestic economic growth in all countries. Countries should concentrate on their own possibilities for domestic growth. Domestic growth, that’s the answer.

Some people believe—and this is spread through the media, particularly the international media—that the Russian boom last year was based exclusively on oil money, i.e., the petrodollars coming into Russia. Yes, the prices for oil and gas were high, that is right. We also were exporting a lot of aluminum last year, and various other metals, and it is true that Russia had a very substantial surplus in its balance of payments, in its trade balance and balance of payments. And this surplus still continues this year. But this factor is overblown, as a factor of growth.

Why? Because the money that was earned, the petrodollars that were earned, were not spent in the domestic economy.

They were not spent to promote the domestic economy. They were not used for capital investment in the domestic economy. They were used for repaying debts to the IMF [International Monetary Fund] and the Paris Club of the leading Western nations. They were also used for stashing money away in other countries, by our oligarchs. Capital flight in our country last year was estimated at \$28 billion. And this is a very large amount of money, particularly for Russia. This is about 40% of all capital resources, created in the country. Out of 100% of all capital resources created in the country, 40% leave the country. They are not spent in the country, but stashed abroad. By whom? By the large oil companies, which belong to the oligarchs, by Gazprom, which only nominally is controlled by the state, but really is controlled by another of the private oligarchical groups. This money didn’t really go into investment. It should go into capital investment. It should be used in the country. But it was not used. So, this factor is overblown. And it is an important point, because people say: If the crash comes, oil prices will fall, and Russia will fall into a new crisis, because there would not be any source of growth.

That, of course, is not a correct assumption. Why?

Russia Is Not Capital Deficient

First of all, I want to repeat what I just said, that Russia is not a capital-deficient country. It is not a country that really needs very much foreign investment. It is not a country that couldn’t provide sufficient resources for capital investment of its own.

And, providing that capital investment, it can use it to support economic growth. In fact, that idea is the key element of Mr. Putin’s economic plan that he announced in his speech to the Parliament about a month ago. He pointed to the super-profits, earned in the export industries. He said that this money was spent not for economic development, but for the purposes I just mentioned. It should be spent inside the country.

How to do it? He asked the government to prepare new legislation, that would tax the super-profits and introduce other measures, that would channel that money, through taxes and otherwise, into manufactures, into developing the high-technology industries which are, in Russia, mainly associated with the military-industrial complex. But, that should be turned into a highly developed, high-technology complex with a big export potential. We shouldn’t be exporting so much raw materials and oil. We should be exporting high tech. Russia is in a perfect position to do that, if it develops these industries on the basis of capital investment. That is the key issue in Mr. Putin’s economic program. Now where did he get that idea? He is no economist. Although, isn’t Mr. Putin also a Ph.D. in economics?

[Sergei Glazyev: “Yes, he has his Ph.D. from the well-known Petersburg Mining Institute.”]

This is the mining institute, right. So, he is a kind of economist. But, of course, he has not got the macroeconomic vision.



Prof. Stanislav Menshikov: "The situation is dangerous, but not fatal."

He got this idea from Academician [Dmitri S.] Lvov. Academician Lvov is co-chair, with me, of the organization Economists Against the Arms Race (ECAAR), i.e., for the reduction of armaments. But he is also head of economic department of the Russian Academy of Sciences. This idea was developed in the Russian Academy of Sciences. And, despite the liberal advisers that surround Mr. Putin, the idea got into this crucial speech [Putin's Presidential Message, delivered April 4]. So, this is understood, and Russia is trying to do that.

Budget Based on Pessimistic Assumptions

Now, the government and Mr. Putin are fully aware, of course, that some kind of crisis, or some kind of crash, is coming in the world. Look at the way the Russians draft their budget for the years 2001 and 2002. They proceed from the assumption of a pessimistic forecast of the world economy. They don't actually proceed from a crash, from a downturn in the GDP of the U.S.A. But they proceed from the basically pessimistic assumption of a substantial slowdown in growth in the American and probably the world economy. They also proceed from the assumption of falling oil prices. The oil price that is used in calculating revenues in the Russian federal budget, is \$21 per barrel for the year 2001, compared to \$25-30 per barrel last year. So, it is a substantial reduction. Why is this so?

The philosophy is, that we should base our basic budget on a pessimistic assumption. If things turn out to be better,

fine. We can earn more that way. We can receive more revenue. But we will not spend that revenue immediately. We will put it in a stabilization fund—this is a new idea, again promoted by Mr. Putin—which will be used partly to repay debts, and partly to finance the country in the bad years. Whether this will be enough to overcome the coming LaRouche crash, I don't know. But, at least, the government is thinking in that way, and that is very important. They are very cautious.

The Main Domestic Danger

What is the main domestic danger? It is political. I pointed to it a few times. The main domestic danger is the liberal advisers and liberal economists, the liberal political figures who are surrounding Mr. Putin and giving him wrong advice. Why are they so dangerous? Because, number one, their basic philosophy is the do-nothing philosophy. Contrary to what Lyndon LaRouche has been suggesting: You don't wait for the crash to come, you prepare for the coming crash, to fight it if you can, with the means that are in your possession.

What the liberals suggest, is: Wait for the investment environment to improve automatically, more or less, without using any special measures to promote that environment. The tax issue that I just described, is not their idea, as I said. It got into the Putin program in spite of them; they tried to cross it out. What they are doing now, is trying to sabotage it by pretending that they are introducing new taxes on the oil industries, when in fact they are introducing very low taxes, which are not much higher than they were before. And they refused to put a tax on the super-profits of that industry.

Now, I don't know what Mr. Glazyev is going to do about those people, because he is sitting in the Parliament, and he should castigate them. I am writing about this twice a week in the Russian journals, but he is in the Duma, he has all the power, he is chairman of the Economic Committee. And I know he is doing a lot. I could even quote him. The word "sabotaging" is probably a thing that he is saying all around.

As he said, these people came to the point, that they are ignoring Mr. Putin's direct orders. Mr. Putin says, do this and that. They pretend that they are all for it, but actually are against. That is what is happening. When will he get rid of all these people? This is a tricky political issue. We can't predict that very much, but that's the problem. And these people are also looking, of course, with an open mouth to the IMF, they are looking with an open mouth to the Paris Club, and they are looking also and saying every minute: "Our best hope is foreign investment, the investment from the West." They know perfectly well that the West is not investing anything.

Last year, the West invested \$3 billion in Russia, while they are investing \$48 billion in China this same year. They invested more in Hungary; in the Czech Republic, they invested \$5 billion last year, if I am not mistaken. This is much

more than what is being invested into Russia. With those figures, you can't expect the West suddenly to turn around. Now, if the crash comes, does anybody think the West will start to invest in Russia? On the contrary, there will be even less opportunity for investments coming from the West.

On all counts, the liberal approach is extremely dangerous. We take Russia alone, so to say. If we assume that Putin manages to overcome the liberal opposition, then Russia will not look so bad in the coming crash.

Russia Thinks in Terms of Eurasia

But, we are not alone, and so we have to think about what happens in the world in general. Here I agree generally with what Mr. LaRouche said about Russia being the natural bridge. But, I don't understand why he said that Russia should start thinking in a Eurasian way. Russia *always* was thinking the Eurasian way. Russia is a Eurasian nation. Look, what is the Russian Federation? It is a federation of maybe a hundred different nations, living in the northern part of Eurasia. That's what modern Russia is. It's a conglomerate of all those peoples, and they do not necessarily live far away from Moscow. Some of the ethnic republics are very close to Moscow, just a few hundred kilometers away. So, they are very close. That is an accident of history. You can't change that accident.

So, the mentality of the people is Eurasian, for all practical purposes. These people are not all Russians; it is a mixture, not a melting pot. Because every ethnic group preserves its culture, more or less. It's not a colonial empire. You can't call them stupid. The Russian majority created all those elites, who finally destroyed the Soviet Union, because they wanted to be independent. Instead of melting them all, the Russian majority promoted their development. That's the way Russian mentality is. They are thinking of themselves as being a part of that conglomerate. Maybe that's not the right word, but still it's true.

Yesterday I was sitting next to a lady who is the head of the Diplomatic Academy in Tbilisi, Georgia. I never thought of her as a foreigner. Not because I am a Great Russian and am looking down at these former colonies. No—we were brought together with the Georgians and the Armenians and all the others. My first wife, deceased, was an Armenian of Jewish extraction. We are all international. That's the way we are born, that's the way we developed in the country.

It's not easy, of course. Everybody knows, ethnic relations are not easy at times.

So, the thinking is Eurasian, and we have a number of organizations which call themselves Eurasian, and they have their controversies among themselves, because there are different ways of Eurasian thinking, as it turns out. It's not just one way.

And there is a strong opposition to Eurasian thinking, coming from those same liberals who say: "No, no, no, we should really shed the Eurasian tradition, we should look to the West, that is our natural ally." Starting with Mr. Kozyrev,

who was the first minister of foreign affairs [of independent Russia], before Primakov. He said China was our foremost possible enemy. "The danger is coming from there. We should look to West for help." That's the idea.

The 'Survivors Club'

The Eurasian spirit is developing in Russia. The triangle you are talking about, Russia-China-India—unfortunately, it is being developed more as two-way relationships: between Russia and China, on the one hand. This is progressing, especially under Putin. They found a common language with the Chinese leadership, very nicely. Just now, they are preparing a visit of the President of China. It turns out, that for the first time we will conclude a treaty of—it's kind of an alliance; it's not called an alliance, but it's a treaty that will constitute a very close relationship between the two countries.

Our relations with India are also developing very productively under Putin. But the relations between China and India are not developing very well. That part of the triangle is not developing. The Chinese foreign minister, in the Kremlin the other day, underlined this. He said that our relations with Russia are improving, but they are not aimed at any other country. Which means they are not aimed at the United States, not aimed at somebody else, and we are not thinking of it as a strategic military alliance. And I know that relations between China and India are not that easy.

But I would prefer not to speak of this triangle. Of course, it is a very good idea. Primakov revived it. Actually, the first man who talked about this triangle was Vladimir Lenin, far back in the early 1920s. Anyhow, I would rather think of creating—I don't know what you call this geometrical figure with five points; I don't want to use the word "Pentagon." What do you call it—or pentagram, pentangle? In any case, Russia-China-India, but let us not forget Europe, and Japan. This is all one big mass of a continent, a supercontinent.

A New Approach Toward Russia

Why are they important? I think LaRouche said why they are important; it's obvious why they are important. I slightly differ with him, in thinking that Germany is that hopeless. I don't think he even meant that. Just the way it acted, up to now, it's a hopeless policy. I agree with that. But, recently, I am seeing signs of revival in Europe. There's a new approach towards Russia. [German Chancellor] Herr Schröder showed it, coming to St. Petersburg. This was his second visit. He and Putin speak the same language; Mr. Putin, accidentally, by being an agent in East Germany, came to know German very well. It helps, they understand; they have a lot of common mentality. It doesn't mean that he is making Schröder a Russian agent, I hope. That would be a disaster. You know how it is. What happened to one of your former chancellors, whose adviser turned out to be a Russian agent? It was Willy Brandt—a nice fellow, but it turned out that one of his advisers

[Gunther Guillaume] was a Russian agent. So, I hope Putin doesn't entice him. Of course, that's just a joke!

What I mean is, of course, there is a strong party inside Germany that doesn't like that, including in the German government. There is the second man in the [German] Finance Ministry, [Cajo] Koch-Weser, the man who said that Russia should be thrown out of the G-7. Schröder never said such a thing. Schröder's approach is, he said: Russia has to pay its debts, but let's be realistic; if there are difficulties, we will help restructure these debts. Because the debt to Germany is quite large. It includes also the debt to the G.D.R. [former East Germany]. (Somehow or other, Gorbachov couldn't go without eliminating that debt, and that debt is with us, as well.)

In any case, there is a new approach to Russia. Schröder says that he welcomes Russia's new European, as he said, orientation. I think that's a good sign. But there are other signs, that European policies are becoming a little bit more independent from America. You [Mr. LaRouche] are, of course, the most un-American American that I have seen. You are *very* American, of course, because you are traditionally American. You are from the best part of America, and the best roots of America. But you are a singular person. As my wife said, "Where do you see an American who knows so much?" For example, who knows that the Renaissance in Italy came at the same time when the Mongols were thrown out of power in Russia?

Who in America knows that? They hardly know that you can go west or east to [get to] Russia, and you will get there. This is a fact. I have been in a family, an intelligent family, where the ladies were really surprised when I said, you don't have to go across the Atlantic, you can go by way of the Bering Strait. That kind of thing. You are an exception, of course. You are not provincial. And you know your history, your philosophy. You are a great man. As I said in one of my articles about you, in Russian, a story about when you were running for President, I said: Well, they will not let him in, because he is too large for the Presidency of the United States. He is like an elephant in a china shop, who breaks all the American china.

Where are other signs of this? Look at what is happening. From Holland we see very much, because we know that the president of the European Central Bank is a Dutchman, Mr. [Wim] Duisenberg. The pressure on him from America, all the time: "Change the interest rates, lower the interest rates, why don't you follow America, why don't you follow the Federal Reserve, why don't you look at what the guy in the Federal Reserve is doing?" It is a continuous chorus. But this guy says, "Well, I don't see that this is necessary, I don't see that the European economy is falling right now, this is not the time. We know better what is good for the European economy." He may be mistaken, but he doesn't follow orders from the Federal Reserve. That is an important sign. Because if the consensus in Europe were different, he would have to follow a different policy. But, the consensus obviously supports him.

Then you mentioned this exclusion. I was shocked. Going down the street in Wiesbaden today, I said, let's look at the papers. *International Herald Tribune*, front page: The United States has been excluded from the UN commission on what? Human Rights! What do you mean? The beacon of human rights has been excluded, by whom? And the European nations have joined this resolution. It was a kind of an honest article, because it said: This is the backlash to Mr. Bush's appearance in the White House and his attitude towards Europe, in part. So there was this backlash. We talked about it yesterday. The dummy is doing something wrong for the United States, even for Lazard Frères, because they are very close to Europe. These are all international groups. But these are all signs of differences.

Talking about Eurasia, we shouldn't forget the other continents, of course. That is true, and our colleagues yesterday rightly corrected us on that. They said, "You are talking about Eurasia. What about us? What about Africa, what about Latin America?" It is important to realize that we have an international problem. We have a global problem, and all continents are involved. Look at what Putin is doing. Just the other day, he was receiving one of the Presidents of a black African republic. Another day he was receiving the President of Egypt, [Hosni] Mubarak. He is doing something Yeltsin never did: He is reviving the internationalist approach of Russia to world issues. I think that's very important. Also concerning Latin America, he made a point of going to Cuba—which didn't create any friends for him in Washington, you know. They said, "This guy is spitting in our eye by going to Fidel." Now, I don't understand: How can they write such things, what is their business? Fidel has been there for ages. They haven't been able to throw him out. The Bay of Pigs, everybody knows. They have agreed to keep him for a while, or at least as long as he lives. Why can't a President of a sovereign nation visit another President of another sovereign nation, without Washington being concerned about this? When Mr. Bush goes to Budapest, will we say, that he is spitting in Russia's eye? Stupid kind of imperialist ideology. Not internationalist, but imperialist ideology. I can't say it differently.

Anyhow, the gist of what I am saying is that the coming crash, if it comes, is not fatal to humanity. I think of what Mr. Glazyev said—that there are many ways of fighting it, many projects to be pushed, without waiting for the crash to happen. It may happen, in spite of the fact that we prepare for it. But we don't have to wait for it.

We also are in a need of wise and concerted action for the common good. And here I agree, it's not just the common good inside the countries—a new variation of the old theories of a common good, inside the country, i.e., help the poor, and so on. The common good is common, concerted actions of nations in the world, aimed at creating a just order. Not the kind of order that we have now, but a just kind of order. By that action—and I agree with LaRouche here—we shall overcome, we shall win. And that's it.