

Will Russia Light the Fuse on 'Paper H-Bomb' of World Debt?

by Rachel Douglas

Something like the “explosion of the universe,” projected by Russian economist Tatyana Koryagina, when she forecast an August escalation of the U.S.-centered financial and economic crash (*EIR*, July 20 and 27, 2001), could be triggered by policy decisions adopted by the Russian government on gold and currency. The setting is an international confluence of debt defaults, corporate losses, layoffs, tumbling stock indexes, and rumored hedge-fund catastrophes, which only the self-deluded could fail to recognize as a global systemic crisis.

The Russian actions have a twofold effect. On the strategic policy level, Russia is a heavyweight among nations inclined to seek new, more stable economic arrangements, likely including the remonetization of gold, in place of the now-imploding post-1971 world monetary system. Moreover, at a time when masses of implicitly worthless financial paper are piled high into every nook and cranny of the planet, major financial players' sensitivity to sudden Russian moves in the domain of gold and raw materials is high, as was plain when Russia abruptly suspended the export and import of precious metals on Aug. 25.

Think of the potential of “a Russian fuse, burning on the global paper H-bomb,” recommends *EIR* Founder and Contributing Editor Lyndon LaRouche, and you'll begin to grasp the potential dimensions of the events reported here. Or, as LaRouche remarked about the positive side of this potential, look at the Russian moves toward replacement of the dollar standard of recent decades, and realize that their impact can be comparable with that of the Dec. 7, 1941 events at Pearl Harbor. The escalating implications of Russia's reintroduction of the gold chervonets coin, and related policies, can be understood only in the context of LaRouche's own work in creating the conditions for a new monetary system, employ-

ing the sound principles of the original Bretton Woods system.

De-Dollarization

Russian Central Bank Chairman Viktor Gerashchenko's decree, making the gold chervonets and silver “Sable” coins legal tender, was signed June 18 and went into effect on July 3. *Kommersant-daily* immediately dubbed the chervonets “Russia's alternative to the dollar.” The daily *Nezavisimaya Gazeta* headlined, “Central Bank Attacks the Dollar with the Chervonets,” explaining that the coin will not be valued at its face value of 10 rubles or strictly according to its gold content of 7.742 grams, but will be subject to a regular price-fixing by the Central Bank, based on the price of gold on the London exchange, the ruble exchange rate of the dollar, and “the interests of the Central Bank itself, and of the retail network.” The first gold coins were to be received by commercial banks, authorized to conduct sales and purchases of chervontsy.

Interviewed by *Nezavisimaya* about the Bank of Russia move, senior liberal reformer Yevgeni Yasin said that he thought that “the gold chervontsy will not be used as a medium of exchange, but will be a means for savings and accumulation.”

By the end of August, branches of the state-owned Sberbank in several regions of Russia had begun to sell chervontsy, acquired by them in the 1970s and 1980s when ten tons of the coins were minted as prospective souvenirs of the 1980 Moscow Olympic Games. On Aug. 23, the monthly supplement of *Kommersant* devoted its front-page feature to Yelena Kiselyova's write-up of the highly liquid and tax-exempt chervonets, and its prospects for becoming popular. When the Central Bank makes the official price-fixing, she reported, it will likely be in the range of 2,000 rubles (nearly \$70 at the



Russia's introduction of "monetary savings" gold—the chervonets coin (inset)—has been accompanied by other gold moves which could have a "Pearl Harbor effect" on the fragile dollar paper bubble.

current exchange rate). "Such investments will be profitable only in the event that world gold prices rise. But, that will apparently happen soon, in view of the crisis tendencies on global financial markets, and pessimistic forecasts about the U.S. dollar," concluded Kiselyova.

The Russian government has moved also in other ways, to soak up a portion of the \$100 billion-some, circulating as dollar cash inside Russia. An article called "Bush's Nightmare," by Georgi Osipov in *Izvestia* of Aug. 27, declared that "Russian monetary authorities seem to have started the de-dollarization of the economy," by encouraging Russian banks to replace the dollar in financial operations. During the first five months of this year, Russian banks' ruble-denominated lending increased by 23.7%, while foreign-currency-denominated lending rose only 15.1%. The share of loans denominated in foreign currencies, declined from 38.5% to 36.8%. Some of the loans are denominated in rubles, but repayments are due in dollars, a process that pulls the dollars from circulation. Sberbank, meanwhile, is allowing customers to open accounts in the European "single currency," the euro, and to convert their dollar accounts to euro accounts in a matter of two minutes.

Izvestia's Osipov recalled that the dollar achieved its recent world status after being separated from gold—the abandonment of "a basic principle of the Bretton Woods conference." Since then, since 1971, "our green friend" has been "based upon trust in God, as is written on the notes, as well as on the belief in the development of the U.S. economy. But prospects for this are now highly dubious," wrote the Russian journalist.

Nations Look to Gold

The Russian chervonets has its roots in Count Sergei Witte's gold-backed ruble policy of the 1890s and Soviet Foreign Minister Georgi Chicherin's 1922-24 gold chervonets, of which today's coin is a replica. Each of those precedents was associated with a battle for Russian economic development, against the preferences of London-centered international finance. The more recent history of the chervonets revival may be dated from late 1998, after Russia's default on GKO government bonds and the devaluation of the ruble. It should be viewed in tandem with shifting Russian evaluations of global economic conditions and their implications for who has political clout.

During the eight-month tenure of Yevgeni Primakov as Russian premier, various maverick economists proposed an international role for the ruble, and for gold. Proposals circulated at that time included Monya Kantov's "The Ruble as a World Reserve Currency," and Artur Sazonov's plan for a "gold-backed ruble," linked to the euro.

Upon election as President of Russia in June 2000, Vladimir Putin announced that he would seek economic policies that were consistent with national security. While far from firing every monetarist on his team, Putin instituted a new State Council that Autumn, which marked an institutional shift from the hegemony of the "radical liberals" under Boris Yeltsin. Putin began to draw on the expertise of economists such as Dr. Sergei Glazyev and Academician Dmitri Lvov, who previously were strictly opposition figures. They contributed to the so-called Ishayev Report (see *EIR*, March 2, 2001), commissioned by Putin as a formulation of national develop-

ment strategies, alternative to the one drafted by the liberal Minister of Trade and Economic Development German Gref.

Also during the second half of 2000, a group working under Yuri Maslyukov began to investigate the weakness of the U.S. dollar as a world reserve currency. Maslyukov had been first deputy premier under Primakov, and now heads the State Duma Committee on Industry, Construction, and Science-Intensive Technologies. Two members of his circle, Oleg Grigoryev and Mikhail Khazin, produced and published a celebrated forecast of U.S. financial disintegration, due to the demise of the so-called New Economy (*EIR*, Aug. 20, 2000). In May 2001, Maslyukov's committee published a book in Russian, *The Collapse of the World Dollar System: Near-Term Prospects*.

On March 6-7, 2001, LaRouche's associate Jonathan Tennenbaum was a featured speaker at a conference on "The Threat of a Crisis of Global Reserve Currencies," held near Moscow, also addressed by several contributors to the Maslyukov book. Two months later, on May 15, Tennenbaum took part in another Moscow seminar on the global financial crisis, held in the Diplomatic Chamber of the Kremlin Palace in Moscow. The future role of the euro currency, and potentially even of a gold-based Chinese yuan, as alternative reserve currencies in the context of a threatened crash of the dollar, was discussed by several Russian speakers, including an expert from the Central Mathematical Economics Institute. At that time, it was indicated that Russian investors had already begun a quiet diversification out of the dollar, into other currencies as well as hard physical assets. The Malaysian Ambassador to Russia also addressed the seminar, speaking of his country's experience in adopting capital controls and reasserting national economic sovereignty against the dictates of the International Monetary Fund.

Lyndon LaRouche presented his policy for the institution of a New Bretton Woods system, as the guest of State Duma (lower house of Parliament) Committee on Economy Policy Chairman Sergei Glazyev, first at a June 28 press conference in Moscow, and then at Duma hearings the next day. At both events, speakers Glazyev and Dmitri Mityayev, head of the Center for Systemic Forecasting, called for the diversification of Russian gold and currency reserves, to deemphasize the dollar.

IMF Is 'Concerned'

Indeed, according to an article by Armen Munayan in the Aug. 20 issue of the Russian weekly *Ekspert*, the gold reserves of the Bank of Russia have increased by 48 tons in the past nine months. Finance Minister Aleksei Kudrin stated Aug. 17 that during approximately the same period, since the beginning of 2001, total Russian gold and currency reserves have risen from \$28 billion to \$37 billion. Their composition has changed, in favor of gold; *Ekspert* specified that "the long-term tendency for the share of gold in the gold and currency reserves to fall," has now been reversed. Munayan wrote that

this development was of concern to the International Monetary Fund, because "no other country in the world has registered such a steep increase of its gold reserves."

The *Ekspert* article went on to discuss the potential strategic weight of the gold holdings of a number of nations: "The increase in Russia's reserves of 'the yellow metal' is cause for concern in certain circles of the 'gold' community. The reason is that Russia, with its 391 tons of reserve gold, along with China (which has approximately the same quantity of the precious metal) is among the countries, whose intentions regarding the use of gold are unclear."

On July 17, Malaysia became the 12th country in the world to issue gold coins. Bank Negara, the national bank, issued the Kijang Emas Gold Bullion Coin in 1 oz., ½ oz., and ¼ oz. sizes, valued according to the international market price of gold. Bank Negara promoted the coin as an investment safe from inflation. In Kazakstan, press articles appearing in August called for a buildup of the nation's gold reserves. *Kazakhstanskaya Pravda* editorialized, "The higher the gold reserve is, the higher is the authority of the state, and the harder is the national currency."

The prime ministers of China and of Malaysia will visit Moscow during September.

What do these economists and leaders of state in Russia, Kazakstan, or Malaysia know, that citizens and politicians in the United States or Western Europe don't know? In a July 12 interview with *Pravda*, elaborating her forecast of the U.S. and worldwide crash, Tatyana Koryagina said, "I am closely watching the measures taken by the President and the Central Bank. From the standpoint of pre-crisis measures, they are acting properly. It is possible that after Aug. 19 [the date Koryagina named as a time-frame for the next crisis phase], the ruble may become a rather good currency."

Precious Metals Frozen

The latest drama of Russian gold and precious metals unfolded on Aug. 25, when the State Customs Committee froze all import and export operations with these commodities, except for those covered by certain long-term contracts. The pretext for the action was the scheduled implementation on that day, Presidential decree dated June 21, by which Putin allowed precious-metals producers to export them directly (instead of through commercial banks)—but also centralized the licensing and regulation of all such exports, under the State Assay Chamber attached to the Ministry of Finance. Since the Ministry of Finance had not prepared the new documentation by Aug. 25, the same decree required the State Customs Committee to refuse passage for the commodities.

The Presidential decree also ordered the Russian government to coordinate its implementation with Russia's customs union partners—Belarus, Kazakstan, Kyrgyzstan, and Tajikistan. The coordination of monetary and gold policies was reportedly discussed by Putin and the leaders of these coun-

tries, at the informal Commonwealth of Independent States summit in Sochi, held Aug. 1-3. (The Russian Union of Gold producers claims that commercial banks have lately shifted up to 90% of Russian gold exports into the shadow economic sector, funnelling them through cutouts in the customs union countries in order to evade the Russian Federation's 5% export tax on gold.)

Ministry of Finance sources quoted in the Russian media shrugged off the Aug. 25 import-export suspension as a bureaucratic snafu; but for certain, every decision affecting the movement or accumulation of Russian gold and precious metal resources, is a point of intense political strife in Russia. Any leadership impulse to act in the national interest, tends to come into conflict with Russian raw materials operators—who made criminal fortunes during the 1990s "reforms"—and their international partners and patrons, who look at Russia as a source of loot, and who fear its actions in the direction of a New Bretton Woods.

It remains unconfirmed at this writing, whether Russian metals and gems trade will be resumed by Aug. 31, by Sept. 10, or perhaps in February or later, and on different terms. In the meantime, Pavel Loginov of the gold-exporting Rosbank complained to the *Moscow Times*, his bank and other private gold-market operators can only sell their gold to the Central Bank, not to their more lucrative commercial partners.

Turkish Economy in Deep Depression, as IMF Makes It Worse

by William Engdahl

The economy of Turkey, a key NATO member and candidate for European Union (EU) membership, is plunging into severe depression. Not surprisingly, the worsening economic situation follows on the heels of a multibillion-dollar International Monetary Fund (IMF) "bailout" package—actually several since last December.

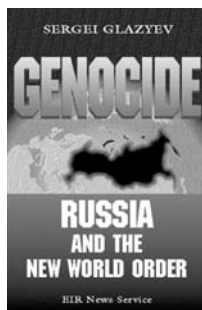
On Feb. 22, following a collapse of the bond market, severe pressure on the Turkish currency, the lira, forced the Central Bank to float the currency. Since then, the lira has lost 52% of its value against the dollar. Fully 10% of that fall came in August alone. This devaluation has meant disaster for Turkish banks that have dollar loans to repay, and lira earnings with which to repay them. Banks and corporations with debts in dollars must pay twice as many liras as before to service those debts, a staggering burden. Some \$15 billion is due in 2001 alone.

Since the devastating economic impact of the Russian default in 1998, and the 1999 earthquake which hit northern Turkey, Turkish banks had borrowed heavily in dollars, and converted the dollars into liras under the fixed-exchange-rate regime to boost profits. With the lira, the banks had earned huge sums simply by buying government debt that paid interest rates of 20%, 30%, 40%, and, more recently, 100% and higher. With the lira float, the banks are being hit hard. Already the government has been forced to step in and nationalize several banks. One, Demirbank, has just been bought, dirt cheap of course, by London's HSBC Group. Italy's Banca Intesa is negotiating to buy Garanti Bank, and France's BNP-Paribas to buy Finansbank.

For a country dependent on imports of machinery and capital goods to modernize and build its industry, the 50% lira collapse has hurt. In January-May, Turkish imports dropped by 16.5% to \$16 billion. Despite three IMF injections of funds since December, capital continues to leave the country, forcing the Central Bank to hold its overnight interest rates to banks at a staggering 60% as of Aug. 28. Given the inability to pay for needed imports for manufacturing, as well as a banking system on the brink of insolvency, it is little wonder the Turkish economy is in a tailspin. It provides yet another case in point why the IMF medicine is worse than the disease it claims to cure, and why only a New Bretton Woods system along lines proposed by Lyndon

GENOCIDE RUSSIA AND THE NEW WORLD ORDER

Russia in the 1990s: "The rate of annual population loss has been more than double the rate of loss during the period of Stalinist repression and mass famine in the first half of the 1930s . . . There has been nothing like this in the thousand-year history of Russia."
—Sergei Glazyev



Paperback, with a preface by Lyndon H. LaRouche, Jr.

\$20

Order #ER 2267



Economist Dr. Sergei Glazyev was Minister of Foreign Economic Relations in Boris Yeltsin's first cabinet, and was the only member of the government to resign in protest of the abolition of Parliament in 1993.

Order from

EIR News Service, Inc.

P.O. Box 17390 Washington, D.C. 20041-0390

OR Order by phone, toll-free: **888-EIR-3258**

OR Send e-mail with Visa or MasterCard number and expiration date to: **eirns@larouchepub.com**

Shipping and handling: \$4.00 for first book, \$1.00 for each additional book.