EIR Strategic Studies

What the U.S. Presidency Needs To Know About the Russians

by Michael Kirsch[1]

As the Obama Administration assumes the duty of command, what is the state of Russian thinking with regard to the current global crisis, at a time when that Administration must reach out for collaboration on solving the biggest economic collapse since the 14th-Century New Dark Age?

No one country is safe from the present crisis; no one country can solve the global crisis within its own borders. Presently, if nations do not unite for a solution, they will be destroyed by the British Empire's intent to destroy them; a British Empire which is presently at the end of its own life span.[2]

There is now nothing more urgent for the survival of both the United States and Russia, than for the Obama Administration to open the door for a strong partnership with Russia, which excludes all British and kindred imperial influences from within and without our borders. For that partnership to work, however, the Administration must understand the current thinking in Russia with regard to the global crisis.

What follows is an examination of how Russia's leaders have exhibited their thinking in the months leading up to the Inauguration of President Obama, relative to the state of their own and the world economy, and actions to deal with it. First, we shall look at how the crisis has hit Russia, and what the outcome was of the initial, emergency attempts made to remedy it. After this, the deeper-rooted issues which underlie the current Russian failures in economics will be addressed.[3] Lastly, we shall examine the ambiguities and struggle in Russia, which reflect the potential for change.

I. The Effects of Global Collapse

Russia Wakes Up

In mid-September 2008, the Russian government realized it had to take emergency action. The Russian stock market collapsed 18% in a single day, Sept. 16, on its way to a 72% fall for the year. Net foreign capital inflows to Russia of $25.5 billion in the first half of the year abruptly gave way to capital flight, which reached $15 billion by Sept. 21. The ruble began to weaken.

1. Written with Leandra Bernstein. Research material for this article includes contributions from Rachel Douglas, Mary Burdman, Pavel Penev, and Matthew Ogden.

2. Lyndon LaRouche, "A New Dark Age Is Now Near: Today's Brutish Imperialism," *EIR*, Oct. 31, 2008.

3. Lyndon LaRouche's "2007 Was Already a Year of Crisis: How Russia Was Surprised," *EIR*, Jan. 9, 2009, is essential to read for understanding the picture presented here.

World Economic Forum/swiss-image.ch/
Monika Flueckiger

World Economic Forum/swiss-image.ch/Remy
Steinegger

Russian Prime Minister Vladimir Putin and President Dmitri Medvedev listen to economic "experts" at the World Economic Forum in Davos, Switzerland (Putin in 2009, Medvedev in 2007). They should be listening to Lyndon LaRouche instead! For 15 years, LaRouche has been warning Russian leaders of the onrushing collapse of the global financial system. LaRouche is shown, below, during an interview with KM.ru in Moscow on May 15, 2007.

KM.ru

Bank lending virtually came to a halt, as banks hurriedly converted ruble holdings to supposedly more reliable dollars and euros, simultaneously with Central Bank (RCB) interest rate hikes to defend the ruble. On Sept. 9, the RCB started injecting liquidity into the markets (in amounts like $20 billion two days in a row) and the banking system. Following non-stop emergency meetings throughout the second half of September, the government put forward an anti-crisis package. New infusions from the country's foreign-currency reserves included over $30 billion lendable to cash-strapped banks, as so-called subordinated credits through Russia's large, partially state-owned banks, and $50 billion earmarked for Russian firms to convert their foreign currency-denominated foreign debt into debt to Russia's own banks.

"The crisis on world financial markets has proved worse than predicted, in even the most pessimistic forecasts," President Dmitri Medvedev admitted to an extraordinary government session on Sept. 18, as trading was suspended on the main Russian stock exchanges.

Finance Minister Alexei Kudrin stopped repeating his Summer 2008 mantra that "Russia is a safe haven" in a storm hitting the rest of the world. Official statements as to the cause of the crisis were, essentially, "The United States has infected the whole world."

Somehow, Russia, as Lyndon LaRouche wrote in his Dec. 27 essay, "How Russia Was Surprised," was not up to speed on the crisis, and "allowed itself to be misled into pretending that it would not be hit massively by what were, in fact, the inevitable spill-over of [the waves of global financial crisis already hitting the U.S.A. and others] into Russia's own economy." The spill-over struck hard, and awoke Russia to the fact that its insulation from the crisis was thinner than preconceived.

From the standpoint of available knowledge and competent forecasts, the Russian leaders had no business being so surprised. Visiting Moscow in 2007, LaRouche had laid out, in two web-media interviews, what Russia faced. LaRouche told KM.ru on May 15, that, without action by Russia, China, India, and the United States to initiate a new financial and economic system, "The entire world economy will go into a dark age." He warned, "The world strategic volcano is going to erupt sometime earlier than September [2007]. . . . The present world system, the present parameters, can not survive. The present system will never get better. It will get worse. There are no solutions within the framework of the present system. The party is over!" The volcano erupted at the end of July 2007.

Russian Academician Sergei Glazyev likewise kept his own and LaRouche's warnings in the public eye. In May 2008, an interviewer from the weekly *Zavtra* commented that Glazyev "and a number of well-known economists in our country and the world, including LaRouche," had long said that a crash of the "global financial pyramid" was inevitable. Glazyev rejoined, "If the leaders of the Central Bank and the government had listened to the recommendations from the Parliamentary hearings, which we held seven years ago," Russia would not already be losing value from its reserves, with the dollar declining at that time. Those hearings on "Measures To Protect the National Economy Under Conditions of Global Financial Crisis" were convened by Glazyev in June 2001, in his capacity as chairman of the State Duma Committee on Economic Policy. The lead-off witness was LaRouche. A Russian commentator wrote in January 2009, "The current global financial and economic crisis was foreseen and predicted long ago. . . . In particular, the prominent American encyclopedic thinker Lyndon LaRouche has talked about its inevitability for a number of years. He visited our country several times and spoke at the State Duma. He is the one who talked about the irreversible collapse of the reigning liberal financial and economic system, but Russian officials just waved off his warnings."

Why did the Russian leaders wave off those warnings from LaRouche concerning the magnitude of the crisis? How did they come to tolerate the prior conditions, which they now were forced to try and change? What pernicious influence was at work? Whatever led Prime Minister Vladimir Putin, for instance, to claim on Nov. 20 that "within the existing world financial system, nothing could have been done to prevent [the crisis], just like a natural disaster"?

In the months since the blow struck in September, Putin has rightly declared that the crisis showed "the incompetence of all the basic elements of the system of regulating financial markets and institutions" (Oct. 20). The crisis provoked him to speak of building an independent financial system, one which could withstand exposure to external problems. Putin has attacked Russian companies for abetting capital flight by purchasing foreign currency, in effect creating their own stabilization funds. He has stressed the need to remove the dependence of important domestic economic development projects on foreign financing.

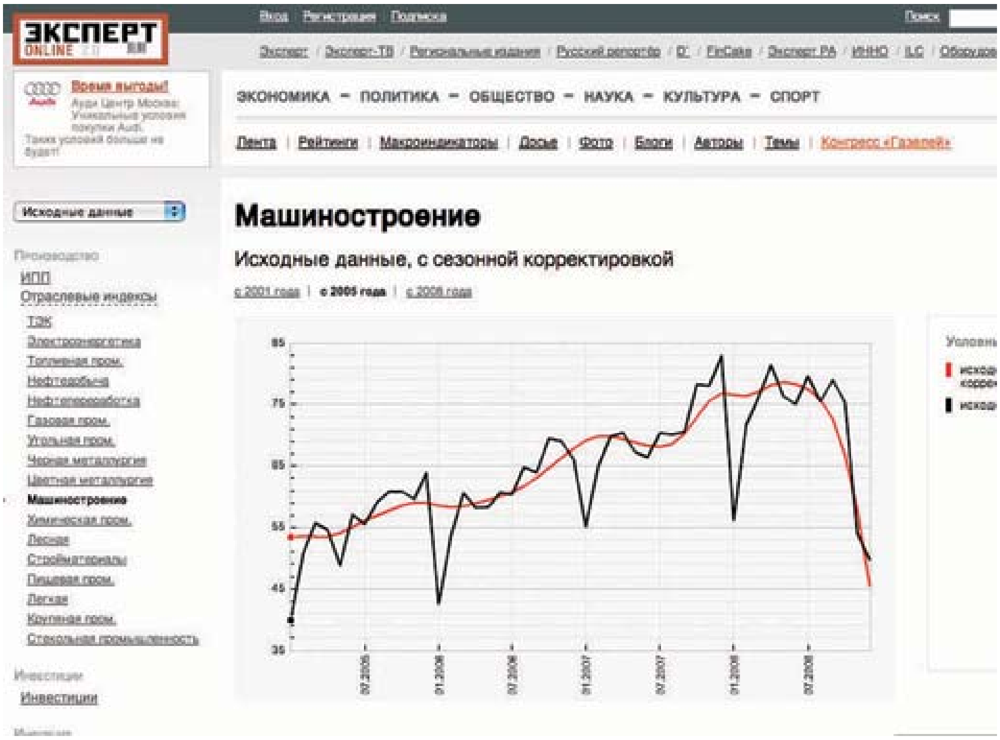
But, why did such a wish-list come into existence *after* disaster struck, and not before? Besides LaRouche's warnings, the ingredients of a different policy were in hand. As we shall review below, key Kremlin officials had staged the world's most substantial commemoration of Franklin Roosevelt on his 125th birth anniversary, including in-depth discussion of the New Deal, in February 2008, and then-President Putin had invoked FDR half a dozen times.[4] Leading analysts like Valeri Fadeyev of *Expert* magazine, a member of the Public Chamber, had written that the "national economy" school of Friedrich List, Sergei Witte, and Dmitri Mendeleyev (which is none other than the famous anti-British American System of Political Economy) was the missing ingredient in Russia's economic policy today.[5]

These economic policy discussions coincided with a public reexamination, unprecedented in recent decades, of the role of British imperial subversion of Russia over many centuries. In October 2007, then-head of the Federal Security Service (FSB) Nikolai Patrushev alleged that the British MI6 was on a major offensive against Russian interests, adding that Britsh secret agents had been doing this since the 17th Century.

On Oct. 5, 2008, as the crisis hit hard, Russian state television even put LaRouche on a prime-time broadcast, saying that the emergency alternative "would require that the United States would have to go to Russia, China, and India. If they agree on reorganizing the international financial-monetary system, we could solve

4. Rachel Douglas, "Franklin Roosevelt in Post-Soviet Russia," *EIR*, Feb. 23, 2007.

5. Rachel Douglas, "Russian Editor: Revive 'National System of Political Economy,'" *EIR*, July 1, 2005



A sample of Russian media coverage of the crisis: This graph from Expert *magazine's website shows Russian machine-building from 2005 to the end of 2008. In the smooth curve, the data have been seasonally adjusted. Note the precipitous plunge beginning in July 2008.*

the problem. This would mean going to a Roosevelt approach, to a kind of new Bretton Woods system."

Yet, due to the same type of pernicious influences as have dominated U.S. policy, the Russian leadership blundered ahead with the same incompetent bailout-type solution as did the U.S. Treasury and the Federal Reserve. In countless government meetings on banking, Russian officials have congratulated themselves on the sophistication of Russia's version of the bailout, trumpeting that the Russian bailout would be more transparent than the American one.

Crisis Hits Full Force

By late November and into December, in the wake of the Nov. 15 Group of 20 summit's failure to enact anything even vaguely approximating LaRouche's New Bretton Woods, the physical effects of financial rot began to be seen in their full horror. Russia entered a precipitous economic collapse.

Major sectors of Russian industry and transport slumped deeply. By the end of November, Russia's manufacturing production was down 10.3% year-on-year; steel pipe production fell 36.9%; coking coal production dropped 38.7%; and fertilizer production fell 51.6%.

In the metals sector, the Novosibirsk Steel Works, a specialty steel producer, cut its staff by 25%. A Chelyabinsk coal mine closed, with 3,000 jobs lost. Steel production was slashed an average of 50% nationwide, including at the giant company Severstal, the famous Magnitogorsk plant (Magnitka), and others throughout the southern Urals industrial region. A similar situation developed in the aluminum industry.

Some of the metals collapse was related to the fall of export prices by up to 70%, as Medvedev reported in a Jan. 12 speech. But transactions inside Russia also ground to a halt. Yuri Boldyrev, formerly an Accounting Chamber official, linked the industrial shutdowns to the credit and liquidity crunch. "Business activity is flickering out," he wrote in a Nov. 26 *Zavtra* article. "Nobody trusts anybody, everybody is trying not to pay anybody else, and, if possible, not to deliver goods because the customers might not pay. A striking example is Magnitka refusing to supply steel to Gorky Auto Works."

By the end of November, the giant Gorky Auto Works moved to a three-day week. Overall car sales fell by over 50% in October alone. The Siberian regional airline KrasAir ran out of money so quickly that its planes were stranded on the runway. Russian railways reported a 20% year-on-year decline of freight transport, with haulage of non-ferrous metals falling even more steeply. Machine-tool output collapsed by 20-60%.

Unemployment skyrocketed. In mid-November, even with many companies holding back statistics on how rapidly their workers were being idled, 100,000 workers from 3,000 companies had been laid off. The layoff rate doubled in a two-week period. Oil sector sources reported in December that one oilfield operation after another was rehiring less than half its staff for 2009. Calculations for October-December 2008, released Jan. 21, showed an increase of official unemployment by 20% to a total of 1.5 million people. Another 30,000 people lost their jobs during the first two weeks of January. In some areas, layoffs in these few months are running double the levels of the 1998 crisis, after Russia defaulted on its government bonds. Wage arrears jumped by 33% from October to November, and 93% from November to December.

Another sign of pressure on the workforce was Putin's call in December to lower by 50% the quota of non-citizen workers that Russian companies can hire. Currently there are 10-14 million such guest workers in Russia. Layoffs of these workers also has a huge impact on Central Asian economies. As much as 20% of Tajikistan's GDP, for example, comes as remittances from its citizens working in Russia.

Faulty Remedy

In one crisis meeting after another, Putin's Cabinet, maneuvered to protect the real economy from the financial collapse plague. But, First Deputy Prime Minister Igor Shuvalov reported to Medvedev, in early December, the billions of dollars channeled to the banks had not reached the real economy. With the stock market collapse having slashed companies' asset valuations by 75%, he explained, industries could not meet the banks' asset standards for borrowers. Interest rates of up to 25%, resulting from the RCB rates policy and illegal rate hikes by individual banks, make it impossible for businesses to borrow.

Like the U.S. investment banks which used their TARP (Troubled Asset Relief Program) bailout money to either continue speculating, or cover their losses, Russian banks have been accused of pocketing the emergency subordinated credits, using them to purchase foreign currency.

The shadows surrounding the Russian banks' failure to resume lending point up the need for a new Pecora Commission, to clean out the corrupt global system of speculation which has been imposed on governments. President Medvedev gamely proposed to Shuvalov that companies could qualify for loans by counting the real asset value of the borrowers, rather than their market share value, but such a solution would be a mere tweaking of the system, within an unsustainable monetarist framework. The Russian government continues to maneuver to change bank laws, as though this would solve the growing crisis, without addressing the rotten, criminal core of the international system.

In the face of the rapid down-spiral, the Russian leadership's refrain is that the crisis will soon be over. Shuvalov says Russia should keep building railroad machinery because, "when the global economy will again be growing at rapid rates," then Russian Railways will need those locomotives. According to him, Central Bank experts calculate that "this period" will only last a quarter or two. For Prime Minister Putin, the dawning of the "post-crisis period" already sounds like an article of faith in a new era soon to arrive. On Dec. 15, Putin said Russia must salvage its big projects, because otherwise "it will be difficult to develop the economy in the *post-crisis period*." At the end of the month, he called for positioning Russia, "for the *post-crisis period*." And again, on Jan. 11, Putin motivated tax exemptions to help employers not merely in these lean years, "but also to invest in the future by creating a basis for *post-crisis* development."

How is this "post-crisis period" going to come about? Is there something magical in the current Russian conception of the "market," causing certainty about a reality that will never occur, so long as the present monetary system is in place?

II. Deeper Questions

Getting to the heart of the matter, in order to reveal the foundational axioms of Russian policy, let us look at the seemingly impossible situation which has been created, due to the country's dependence on raw materials exports.

LaRouche wrote in "How Russia was Surprised," that "Russia's apparent refusal to recognize, *in time*, that its recent role has turned out to have been blind faith in a vastly overpriced market for its raw materials in energy supplies, misled Russian leaders into the view that its temporary margin of profit from exports was permanent. This illusion contributed to luring Russia into its present crisis. The solid evidence in the matter, is that Russia was misled into acting as if it did not need to put the priority on investing in vigorous expansion of its industrial and related output" (emphasis added).

Russian economist Prof. Stanislav Menshikov, in *The Anatomy of Russian Capitalism*,[6] points out that the reliance on income from raw materials exports was interwoven with the Russian leadership's failure to invest in any sectors of the economy besides those which had already been developed under state regulation in the Soviet period. They didn't develop new sectors of manufacturing and production, which, to succeed, would have required a high degree of regulation and protection, as prescribed by the American System of economics.

Instead, during the heyday of privatization and deregulation in the post-Soviet 1990s, and beyond it, into the current decade under Vladimir Putin as President, Russia remained hostage to momentous investment decisions made in the Soviet period. It was in the wake of the 1971 demise of the Bretton Woods system, and the 1973-74 war and oil price crises, which catapulted the petroleum spot market into its status as a major driver of the speculative floating-exchange-rate monetary system, that the U.S.S.R. chose massive development of the West Siberian oilfields for purposes of export, as its most concentrated area of industrial effort.

6. Stanislav M. Menshikov, *The Anatomy of Russian Capitalism* (Washington, D.C.: EIR News Service, 2007).

The Case of Russia's Far East

On Jan. 12, the Russian daily *Nezavisimaya Gazeta* carried a feature on the "economic disintegration" that Russia faces, echoing LaRouche's description of Russia's negligent policy of development. The author wrote, "During the years of economic prosperity, Moscow did not bother to establish motor vehicle manufacturing or the mass production of high-tech products in general, in Siberia and the Far East, by granting some kind of concessions to potential investors. Without such concessions, it is not profitable to invest in any high-tech production facilities there."

Konstantin Simonov, head of a Russian think tank called the National Security Energy Fund, also pointed to the lack of investment. In September, he stated that only the government could solve the huge problems of the Far East region. "Huge investment paired with huge risks is not for private businesses," he said, chastising government officials for their irrational fear of "accusations of dirigism." During an October visit to the Far East, Medvedev himself stated, "We must understand one perfectly obvious fact and, incidentally, one that you feel more acutely when you are actually in the Far East. If we do not intensify our work, then it is possible that we could lose everything." These warnings came, as LaRouche put it, not "in time."

The auto sector, as noted, took a beating from the "overflow" of the world economic crisis into Russia's economy. Putin pushed through protectionist measures to rescue the industry, including a duty on imported cars. In the Far East, however, that duty threatens to throw hundreds of thousands of workers out of work, disrupting the lives of millions, because importing and servicing used Japanese and Korean cars is a huge part of the area's economy. Thus, while protectionism would seem to be an interim solution in the current crisis, the lack of investment in high-grade technology in the Far East meant that the Russian government created a situation where simple protectionist measures for one sector backfired in another. The Pacific coast city of Vladivostok saw serious protest demonstrations against the tariffs in December, with SWAT teams being flown in from other cities to suppress them.

The Far East case is indicative of the need for a more far-reaching solution. But the Russian government has been dealing with the global crisis as a set of seemingly individual crises that keep flying in its path. The real problem is not that tweaking one part of the economy in western Russia upsets something in the Far East, or vice versa; the problem is systemic, and the Russian leadership's failure is not having acted on it as systemic.

The Revealing Matter of the Projects

Going deeper into current Russian errors in thinking, turn to an element interrelated with the industrial collapse of Russia, namely, the crisis in what has appeared as a most promising aspect of economy policy: big infrastructure projects.

In late November, the government met to discuss the danger that projects already launched might never be finished, in the crisis. Questions were even raised as to whether foreign nations, due to a lack of capital in Russia for the task, might win contracts for projects such as the integrated energy-mineral resource-rail project called Industrial Urals-Polar Urals (UP-UP), or construction for the 2014 Winter Olympics in Sochi. Media discussion of the threat to the projects mentioned that the construction of the fifth unit of the Kursk Nuclear Power Station had been frozen, and that Russian Railways would have to cancel its plan to build a railroad from Yakutsk to the Bering Strait.

In early December, Shuvalov said that, to avoid the problem of unfinished projects, those lacking funding to be finished by 2010-11 would not be started at all. Big projects like UP-UP and the South Yakutia Development Complex would remain on the agenda, so far, but were mentioned as likely targets for delay.

The interconnection of the projects with saving jobs in industry escaped nobody. The governor of the steelbelt region of Chelyabinsk, forecasting losses of 37,000 jobs monthly in 2009, said Dec. 22, that it will take three to five years to recover from the damage sustained by his region in just three months. UP-UP, for example, is supposed to create 50,000 jobs in Chelyabinsk by opening up new resources for Russian industry, but also through the demand for industrial products to build railroads and other components of the project.

On Jan. 14, the government announced that project money from the state Investment Fund will be only half the level planned just months ago. Of 21 projects on its roster, only 15 remain. One gets the image of a storm closing in on the government, whose existence is not discussed, but merely the effects; one dodges a falling tree or breaking glass, but no shelter is constructed.

Where was the funding for these projects supposed to come from, which is now lacking?

An official from the company Base Element stated at the end of November, "Long money [long-term credit] cannot be found anywhere, and prices for the resources it was planned to develop in these regions, like coal, metals, and uranium, are dropping. The companies had calculated the profitability of investing in these, under entirely different circumstances."

There is a dramatic, sensuous case of the same error in planning, which led to Russian surprise at the global economic collapse. The government left itself dependent on its own raw materials export earnings to fund these projects and other vital spending: The 2009 budget draft assumed international crude oil prices of $90/barrel (as we go to press, they are $41). Furthermore, Russia intended to do the projects through Public-Private Partnerships (PPPs), counting on money from the private sector, whose interest in the projects was largely motivated by the very same high prices on those raw materials!

Such thinking is revealing of the problem in the Russian economy today. Depending on the projected earnings of private capital from mining raw materials, as the basis of determining the feasibility of infrastructure projects which are essential for the survival of a people, is alien to the mission of government. More broadly, the notion that the projects on which a nation depends should be determined by the "market price" of raw materials, is an error detrimental to mankind, and is just plain stupid.[7]

Thus, Russia was constrained by "market forces" and the well-being of a private sector deeply entangled in the global speculative system—which is now dead.

In addition to PPPs as a source of financing, reliance on raw materials export income points to another crucial flaw: looking to obtain money "profit" abroad, thus thinking about profit in terms of a fixed idea of value, exchange value, inherited from Adam Smith via Karl Marx. This problem is one of deep, axiomatic outlook: Russia and many European countries have been seduced and infected by the British liberalism of Adam Smith, of which Marx was the flip side. Why would Russia fall in with the over-used hussy, M'Adam Smith? Let us examine this more closely.

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7. But, could this not also be said for the folly existing, if Felix Rohatyn's and Michael Bloomberg's fascist infrastructure program is the fantastical method of "funding" chosen by the U.S. Congress? Placing the future in the hands of private capital is obviously a folly, as seen in their Mussolini-modeled PPP schemes. See Marcia Merry Baker, "Felix Rohatyn's PPP Swindles: The Mussolini Model for Infrastructure," *EIR*, Dec. 8, 2006.

An artist's conception of a floating nuclear power plant. One such plant is currently being built in Russia, with more planned. Such great projects for development are now in jeopardy because of the financial meltdown, yet they offer the only hope for the future.

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A Misconception of Value

Russia was denied the ability to rebuild itself in collaboration with Europe, after the collapse of the Soviet Union.[8] During the 1990s, when radical monetarists trained by the London Institute of Economic Affairs seized the reins of power in Moscow, the looting of Russia's raw materials base and the accumulated industrial capacity of the Soviet era proceeded on a huge scale.

Menshikov describes what happened as "Leninism in Reverse." Just as the transition from the "capitalism" of the 19th Century to "socialism" under Lenin assumed that the needed physical basis for that shift had been created under the old system, so the free-market radicals running Russia after the collapse of the Soviet Union assumed that "socialism" had laid the physical preconditions for a shift to market "capitalism." Instead, Russia's economy was ravaged, through a process of carpetbagging by foreign interests and widespread organized crime, with agents of foreign countries and institutions directly running economic policy until the late 1990s. The spread of globalization throughout the 1990s had created a false market, which Russia adjusted to, out of seeming necessity, but from which it did not benefit. Now, with the entire world system of "globalization" dead, the inevitable collapse of Russia's export markets has occurred.

Under Putin, especially in 2006-07 during his second Presidential term, the Kremlin at least announced an industrial policy, with the launching of a nuclear power revival, big infrastructure projects, and national corporations for the auto, aircraft and possibly machine-tool sectors. All of those are now jeopardized by the global systemic crisis.

Why, then, do Russian leaders remain officially committed to globalization, boasting that they are first-rate players in its game? What would make the Russian government believe that a recovery in the markets will come about through self-correction, after inefficient parts of the economy are weeded out? What would cause them to believe that, in the long run, the cycle of the market leads to gain? What axioms guide these deadly policies?

During the recent conflict with Ukraine over natural gas prices, both Putin and Medvedev, to say nothing of die-hard monetarist Finance Minister Kudrin, have repeatedly quoted chapter and verse on the necessity for every nation to put its well-being in the hands of "market prices." Putin stated that price is "determined by the market and not by administrative decisions." Not only does the government back Gazprom's imposition of world-level prices for natural gas on its near neighbors, but raising domestic prices to those levels remains official policy, as well—even though, at the moment, the government admits that to do this for gas or rail freight rates would shut Russian industry down even more.

Medvedev, at a recent meeting with President Islam Karimov of Uzbekistan, stated that competition determines price, and that "those who wish to get by, thanks to low prices, are undermining their own efforts to build economic prosperity. They place their hopes on preferential prices, but in real life, this can not last forever."

That is to say that countries which don't pay market prices are harming themselves by using artificial advantages. This way of speaking reflects the belief that there is an inherent value, which the market

8. LPAC-TV, "The Lost Chance of 1989, Part II: The Fall of the Wall," September 2008, www.larouchepac.com/static/2008/09/23/lost-chance-1989-fall-wall.html.

knows and bestows upon a commodity; if you want to change the price, bad things will happen to your country. With what other belief would such barbaric behavior be justified?

But, how could the market know the right price? The market only knows the names of the speculators who have been using it to destroy the economies of nations over the last 40 years. There is no sane reasoning behind it, as Russia should be well aware.

The reasons why Putin's team, when they jettisoned the free-market radicalism of the 1990s, did not abandon such axioms of globalism must go beyond merely the holdover of free-marketeers like Kudrin or Shuvalov in the government. One explanation is that their habits of thinking were inherited from the time when Marxist doctrine reigned. Marx's theory of value of the "commodity" derived from the same method as Adam Smith's analysis of economic value. The idea that a nation would get its income from a fixed commodity, limited only to certain sectors, is cause for a lack of integrated, domestic development. Is the purpose of developing a railway to get money from it? So it might seem. "How can we extract the value from it, and get the money?" But, set aside the notion that something's value depends on its generating monetary profit. The concept that a resource is valuable because it makes profit, is alien to building infrastructure.

Infrastructure, if looked at as a means to obtain and ship commodities for sale, will be thought of as providing the ability to build or obtain particular things. But, if infrastructure is conceived of from the standpoint of its role in integrating a national economy—an idea driven by a nation's will to apply scientific discoveries made by individuals—then its true potential to increase value for the economy as a whole emerges in a qualitatively different way.

Productivity comes from that which increases the power to develop and meet the requirements of the population, not that which has value because the "market" has determined it to have a high price. Value is created as a consequence of the government's intention to develop the nation. Price is a mere effect which, by means of protectionist regulations of government—not the magic of the marketplace—is caused to converge upon that which leads to the maximum development of the physical economy.

The market ideology breeds a view of value as the monetary profitability of a resource, seeing infrastructure as a means to extract wealth for the purpose of getting money. But, these are not reasons to mobilize the people of a country. Projects are launched for the long-term development of the territory as a whole, for the sake of the development of the minds of the people, and increases in the standard of living.

What is made clear through the economics of the nation-state, with its further development, in our time, by LaRouche, is that the entire discussion of "capitalism" and its stages is a fallacy, even beyond its being an empiricist analysis of an economy. What is more demonstrative of the fraud upon which it stands, is that, like Adam Smith, such a system of analysis is constructed apart from the existence of nations, and the particular tendencies which different nations have for their own development. It is conceived *outside of the existence of constitutional republics, whose economies are the expression of development of their citizens and their unique minds*.[9]

As evidenced by the U.S. Constitution, true Constitutional republics are crafted with the understanding that the powers entrusted to the Federal government are, with respect to their objects, *sovereign*. Meaning, that in respect to their objects,[10] powers imply the ability to construct all the means necessary to affect those objects, and all the means which relate to its regulation; powers of government are not rules to be defined literally—not formulas—but, rather principles to be applied *generally*—and not locally—requiring creative people who can conceptualize the economy as a single unified process; a process whose end is the maintenance of the action of an unseen principle, the stated intention of the Constitution, at each moment. Government implies an intentional unfolding of a conception for the citizens of a nation, with an overarching plan of action, one that begins with the recognition that citizens are the resource from which the nation's progress is achieved, through the employment of their thinking power.[11]

It is the failure to understand this principle of government, whether in Russia or the U.S.A., which sends either side running for some mess of mechanical, free-

9. Frederich List, *Outlines of American Political Economy in Twelve Letters to Charles J. Ingersoll*, Letter 2 (Wiesbaden, Germany: Dr. Böttiger Verlags-GmbH, 1996).

10. Concerning Article I, Section 8 of the U.S. Constitution, Alexander Hamilton referred to those things to which the powers related, such as taxes, duties, and imposts, as "objects."

11 11. Michael Kirsch, "Hamilton Counsels Congress: Rediscover Your *Powers*," *EIR*, Feb 9, 2007.

National Archive

President Franklin D. Roosevelt (left) with British Prime Minister Winston Churchill. Many in Russia have recently spoken of the importance of FDR's economic policies for the development of Russia today. But more broadly, confusion continues in leadership circles about the pernicious influence of the British imperial system.

market rules, which are founded on relinquishing the powers that government implies.

As the system of globalization, through which Russia has acquired its raw materials revenue, collapses, Russia must not merely break from its dependence on raw materials exports, but from the delusion of globalization, and the superstition that the "magic of the marketplace" determines value. It were wise of Russians to heed the words of the late Prof. Taras Muravinsky: "It will be impossible to find an exit from the crisis, without sensible government regulation of the economy. The chaos of destruction cannot be overcome through the spontaneity of the market."

III. Opportunities for Cooperation

Russia has fallen into the mentioned traps, but that is not the end of the matter. We have looked at the problems in the Russian reaction to the world crisis. To complete our review of the paradoxes presented by the question, "How should the Obama Administration reach out to the Russian government for cooperation?", we must take up certain ambiguities, which offer a key to the answer.

Although the Russian response to the economic crisis has been chained to a monetarist approach, at the expense of an integrated national-economy approach, the Russian leadership's own announced projects and stated desires point toward a basis for escaping from monetarism, especially in cooperation with the United States.

What are the redeeming qualities, expressed by the Russian leadership, that the U.S. government could align with, as a first measure to move out of the crisis? Is there something in current Russian thinking about the development of the real economy and banking, which could, if brought into collaboration with a restored American System credit system in the U.S.A. itself, serve as a gateway to initiating a global Hamiltonian credit system by the United States, China, India, and Russia?

FDR in Russia?

In recent years, many in Russia have explicitly invoked the importance of Franklin Delano Roosevelt for the development of Russia.

On Feb. 6, 2007, the Russian Ministry of Defense daily *Krasnaya Zvezda* published a special message on the occasion of FDR's 125th birthday, including a commentary by Academician Andrei Kokoshin, one of Russia's leading specialists on the United States and strategic affairs, and also a committee chairman in the Duma. Kokoshin called FDR "one of the greatest statesmen, not only of the U.S.A., but in world history," and cited the genius of the New Deal, as a symbol of mutually beneficial cooperation between the U.S.A. and Russia.

Two days later, at a Moscow conference titled, "The Lessons of the New Deal for Today's Russia and the Whole World," held at the Foreign Ministry-linked Moscow State Institute for Foreign Relations (MGIMO), Deputy Chief of the Presidential Administration Vladislav Surkov spoke of the similarities between the measures the Russian government needs to take, and those of Roosevelt: "to centralize and reinforce administrative governance, and make maximum use of his presidential powers under the Constitution." He pointed to the importance of Roosevelt's ideas for Russia, saying, "The simplistic theory that says the less government, the better, is wrong and immoral." Roosevelt, said Surkov, "our ideological ally in the 21st [Century], will remain . . . for all of us, for every Russian, the greatest of all the great Americans." (Surkov remains a top Kremlin aide to Medvedev, as he was to Putin, at that time.)

On the same day, Boris Titov, chairman of the Business Russia Association, stated, "Before Roosevelt, it was believed that the market would settle any problems that came up." But, he said, FDR brought the government in, to play the crucial role of "eliminating failures in the economy . . . and regulating the market. That is very important for our country. . . . [In the 1990s] we believed the market would take care of everything."

The Russian government, which now pronounces that it is committed to the powers of the market to take care of its current and future generations' well-being, would do well to pay attention to this discussion from just two years ago.

Vladimir Putin himself, in his annual Presidential message to the Federal Assembly, May 10, 2006, quoted FDR on the necessity of treading on the corns of "those who attempt to gain position or wealth, or even both, by taking shortcuts at the expense of the common good." On Oct. 18, 2007, asked by a reporter about his vision for Russia, President Putin invoked the New Deal, saying that, "Roosevelt laid out his plan for the country's development for decades in advance," and that he often battled the elites. "At the end of the day, it turned out that the implementation of that plan benefitted both ordinary citizens and the elites, and eventually brought the United States to the position it is in today."

Economy of Science?

LaRouche stated in "How Russia Was Surprised," that Russia did not make the needed transition in its economy, "*in time*." The lack of investment in domestic manufacturing made Russia dependent on an ephemeral stability provided by oil- and gas-export revenue, which was quickly pulled out from under the country. Yet, a solution was implicit in some policy-commitments on which the Russian government has been explicit. The failure to implement a shift in a timely fashion takes us back to the curious matter, of what forces have dominated administrative decisions, blocking such action.

Menshikov points out that Russia needed only to unite its income from raw materials with its enormous engineering, scientific, and technological capabilities, to finance and quickly develop a manufacturing sector. Indeed, it has been Putin's stated intent, to break from dependence on raw materials and to develop manufacturing.

In February 2007, then-President Putin launched a campaign for an industrial policy, with a series of speeches. He told the Russian Union of Industrialists and Entrepreneurs, "We must take qualitative steps to change from simply exploiting natural resources, to fully processing these resources and, in turn, this must serve as the basis for the development of an innovation economy. . . . Russian industry's accent on raw materials increases its dependence on foreign markets and on the fluctuations of world prices. And Russia has already seen, more than once, how destructive, and sometimes how devastating, for the national economy, this dependence can be. . . . One of our important economic priorities is to diversify Russian industry."

Was this stated intent to break Russia from the dependence on raw materials and market fluctuations merely lip service, or did some bad advice or pressure prevent Russia from enacting FDR-type government regulation, in order to initiate the changes "*in time*"?

In his webcast of Jan. 22, 2009, LaRouche discussed the social and political problems that challenge any Russian attempt to make such a shift. LaRouche cited the Soviet model of economy, which lacked a commitment to generalize scientific progress in production throughout the economy. The Soviet Union mobilized the will to develop the military and space sectors, and strategic infrastructure, he said, but creative breakthroughs in these areas were not part of the conception of the domestic economy as a whole. They lacked motivation, in applying scientific discoveries to their factories and farms.

Has Russia now shown the will to break from this model? On Oct. 21, 2008, Prime Minister Putin, speaking at a conference in Krasnoyarsk on "Expanded Use of Space Technologies for the Socio-Economic Development of the Country's Regions," attacked "the old model," whereby "the space program existed as a thing in itself." He underscored that "the process of introducing the achievements of space research into the economy has still not been made systematic," and said this must change.

In the same vein, one of the threatened infrastructure projects mentioned above, the UP-UP, has been designed by Russian Academy of Sciences specialists to develop natural resources, not merely for export, but to be integrated with the region's manufacturing industries, demanding the involvement of other machine-building industries. Does this indicate a change toward thinking about an integrated national economy, a self-developing system within Russia's national boundaries? Does Russia want to escape from "free trade," where circulation is unregulated—with results much like what happens when an arm is cut off at the wrist, allowing a spurt of "free circulation."

Even in recent months, Putin's refrains about the magical speedy end of the crisis were punctuated with statements reflecting such a potential policy shift, in broad terms.

In response to the world financial crisis, Putin has stressed that a "robust national economy" is the only safeguard. He says building up Russia's internal resources will mean that "in the next few years, Russia should achieve a significant improvement in the quality of work of the main, backbone industries, such as transport, the fuel and energy complex, the banking sector, and agriculture."

Putin stated in October that Russia is trying to develop "long money," not the short-term "hot money" of the oil price bonanza. His recipe for "long money" involves, at least in words, building up the domestic economy with domestic resources. The government's official position is that Russia needs to keep investing in R&D, despite the crisis, to achieve the latest technologies and to build up national innovation, in a "diversification" strategy of developing high-tech sectors of the economy. They have stressed infrastructure for all territories.

More advanced ideas are also on the table. Despite the failure to develop the Far East "in time," it was in the context of discussing Far East development that Moscow Mayor Yuri Luzhkov told *RBC Daily*, on Sept. 26, 2008, that Russia's authorities should follow in the footsteps of Sergei Witte, Russia's transport, finance, and then prime minister under Tsars Alexander III and Nicholas II—and a great proponent of the "national economy" school in Russia. Luzhkov noted that Witte had realized the importance of the Far East and had gone to great lengths to develop the region.

American System Protectionism?

Despite the official posture that Russia has successfully transitioned from socialism to the free market, both Putin and Medvedev have cast doubt on that formula in recent months.

After the November G-20 summit, President Medvedev announced that the participants had pledged not to resort to protectionism, but he said he fully expected nations to act to protect their own economies. Putin made clear that Russia will attempt to do so, saying, "We shall use customs and tariff protection for our domestic market, such as in agricultural goods." Spelling out a program of price preferences for domestic producers, for use in designing state orders, Putin said, "I think that protectionism of this sort is a temporary measure, but it is entirely appropriate today." He has further stated that under current world conditions, it is necessary to "not fully conform to competition" but to use protectionist measures, or, "secure priority directions of our industry."

On Nov. 24, Medvedev elaborated, "Where rejection of protectionism ends, and the defense of one's own producers begins, is a question of taste and measure, of what is adequate in one situation or another.... Not a single country, not a single head of state, will ever be so bold as to state that they will never act to defend their own producers, their own real sector. Therefore, measures taken to defend one's own producers and production, industry, the real sector, need to be sensible and adequate. But what those measures are, is a decision for each nation to make in its own way.... We shall do what we need to do, in order to protect our real sector, and help it, by providing supplementary credits, and some other measures which may be justified."

This is an inclination that must be embraced by patriots of the United States, as well, who want to save their nation, and implement American System policies.

Credit Policy in Banking?

As some in the United States government are beginning to heed LaRouche's call, in his Jan. 16 and Jan. 22 webcasts, concerning the bankruptcy of the banking system, perhaps knowledge of the ambiguity of Russia's positions can help to transform the ability of both sides to solve the crisis.

Recent months have brought signs of new approaches in Russia, which could be of general benefit.

Glazyev, a long-time critic of the government's monetarism, who now has an official position as secretary of Russia's Customs Union with Belarus and Kazakstan, put forward a crisis plan in August 2008. He proposed that the Central Bank issue rubles based on credit applications from Russian producers, rather than on the current basis, whereby the Russian money supply is increased through the conversion of dollar-denominated export earnings.

On Oct. 21, former Central Bank chairman Victor Gerashchenko, interviewed on Radio Ekho Moskvy, advised listeners to look at "the example of the U.S.A.—not the consequences today, but at how it developed a huge country for over 50 years, and kept its level high for a long time." Yes, there was military spending as a driver, he said, but "that very military spending also means, as a rule, technological breakthroughs in various areas simultaneously." If the U.S.A. enjoyed success by issuing "treasury bonds, and even simply currency," for such earmarked purposes, said Gerashchenko, "why can't we do that?" It should work, he added, "as long as the money goes for productive purposes."

In November, Putin called for the creation of "long money for long-term, capital-intensive projects." To accomplish this, he called for expansion of the program under which commercial banks can obtain preferential financing from the Central Bank, earmarked for the purchase of bonds issued by companies in the real sector of the economy. In parallel, he said, "there should be broader use of the potential of our development institutions, as well as banks that are partially state-owned." Government and state-owned banking support to the real sector should emphasize the improvement of infrastructure, he said.

These three examples reflect a potential directed-credit policy, which would be essential to avoid assured disintegration of the world economy under monetarist dogmas such as currently have a stranglehold on Russian policy.

Collaboration among the United States, Russia, China, and India under long-term treaty agreements, with the guidance of the American System credit system, as put forward by LaRouche, could set the stage for Russia's state-owned VEB Bank and Development Bank to serve as a basis for national banking, having already acted on directed funds for industry, rather than merely funneling money to commercial banks.

So, What's the Problem?

With this multitude of seemingly positive tendencies, we return to the question posed at the outset: What has stood in the way of these becoming the dominant, guiding policies of the Russian government?

LaRouche wrote in his cited essay, that, over the last year, Russia's increasingly visible source of disorientation, was "*perhaps supplied, in part, by certain ostensibly British assets known to me as being from outside Russia itself. This 'assisted disorientation' is what has been recently suffered by some leading parts of Russia's institutions*." LaRouche stressed again, on Jan. 22, that Russia's leaders were caught by surprise by the crisis, because they were accepting the advice of someone else, and that they should get rid of that someone else.

Therefore, one would make a mistake to assume that Vladimir Putin or Dmitri Medvedev are "tragic figures." Historically, forces in Russia have fought to adopt American System economic policies, as happened repeatedly in the 19th Century. The American System is not peculiar to a group of people united around a belief; it is not a religious dogma. The American System was a method of developing the creative powers of mankind in society. It is a universal scientific principle for all sovereign nations. Therefore, resistance to collaboration with the United States on a new international credit system could only be the result of brainwashing by the British Empire, in favor of acceptance of a foolish, purely dogmatic view of history such as the "stages of capitalism."

It would be such follies, imported from outside, which blocked a break from reliance on peddling raw materials. Splitting Russia and American apart, economically and otherwise, has been a British imperial priority for over two centuries. What Russia should do today, is to throw out the advice of anyone who had proposed reliance on raw materials, or market prices of raw materials. Throw out the advice of those who propose an image of Russia's mission as standing in opposition to some false concept of the United States as the new empire. The basis for cooperation between the United States and Russia is that both nations have a common enemy, and this shared enemy is not a nation. This common enemy is the supranational financial forces: the Brutish Empire, which has been intent on destroying sovereign nations for some time. This problem must be noted by the Obama Presidency, in order to form a truly cooperative relationship with Russia, based on the Russian government's more promising inclination, toward the policies of FDR.

EIRNS/Stuart Lewis

Alexander Hamilton's credit system is based on the role of government as primary. The failure to use this stated intention of the U.S. Constitutional system, renders the U.S. government as impotent as Russia has been. Time for both to change!

In Summary

International leaders failed to declare the existing, speculation-based international financial system bankrupt, and to implement LaRouche's policy for a New Bretton Woods, at the November G-20 summit. The effects of this failure were felt acutely in subsequent weeks, exposing the fact that leading personalities of governments, such as Putin, Medvedev, or France's Nicolas Sarkozy, were neither responsible for generating the idea of a New Bretton Woods, nor capable of carrying forward the momentum for a genuine Rooseveltian solution. But the opportunity which was missed two months ago, sabotaged by the City of London and the Bush Administration, now has a second chance, with the inauguration of the new U.S. Administration.

The Obama Administration must ask: If we are faced with the same type of collapse of our own banks, production, and infrastructure, what do we have as a capability, lacking in Russia, which allows us to solve the crisis they have, as yet, been unable or unwilling to solve? What do we have, which could initiate a path for global cooperation?

The credit system of Alexander Hamilton is based on an awareness of the role of government as primary. The failure to use this stated intention of the U.S. Constitutional system, renders the United States government as impotent as Russia has been, in providing that for which the government was constituted in the first place.

Instead of this dance of the eunuchs, discussions on resolving the global crisis must begin with an acknowledgement of the bankruptcy of the British imperial monetary system. Rather than continuing to play the game of manipulating effects, act on the cause: Throw the system out, and under a new Pecora Commission, prosecute those who are responsible for upholding that system against governments.

Above all, there must be a return to the American System's concept of the role of government in guiding the implementation of needed scientific principles. Anything less, any mental pollution, such as a mystical belief in the magic of Marx's stages of capitalism, or the inclination to respect and protect "market forces" as if they were part of nature, means sure death for the world economy.