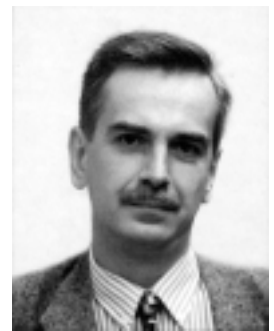

Prof. Andrei Kobyakov

Paradoxes of a Bankrupt World Monetary System

Professor Kobyakov teaches economics at Moscow State University, as well as the Higher School of Economics, in Moscow. He is the author of books and articles, including “The Decline of the Dollar Empire and the End of Pax Americana” (2003, with Mikhail Khazin). In columns for Expert magazine and testimony before the State Duma, Kobyakov has laid bare the fragility of the financial bubble of derivatives speculation, which is the essence of the globalized economy. As an editor at the periodical Russky Predprinimatel (Russian Entrepreneur), he launched a campaign to bring the theme of morality in economics, into Russian policy discussions.



I want to address some issues that are under discussion today. First of all this crisis of international financial system: To be frank, this question of the world monetary and currency system is not only the question of modern responsibility for the main issue of the world currency, and not only a question of a world economic model, but truly it is also a geopolitical question, a question of world power and control. Certainly there could be different ways to exercise this control, for good or evil. But certainly also, the international financial system, the international monetary system, is an instrument of such control. And well, we have now just what we wanted—I don’t mean “we,” but those people who constructed and reconstructed this system.

How Statistics Can Mislead

Since the 1960s, the American model has changed. And this is one of the main issues of Mr. LaRouche’s speeches,

that the new-modelled “American dream” is to produce less and to consume more. So, now the situation is like this. Once I read in the paper that Steven Roach, the chief economist of Morgan Stanley global investment bank, said if the whole economy is a body, America used to be the head, or the brain, of this economy, and maybe hands that make things. But now, America is the world’s stomach: It only consumes what others produce. But this situation is somewhat unique, because production and money, money-issuing centers, are just completely different things. . . .

So the situation now is, the U.S.A. is the world’s stomach, and China is the world’s factory. China produces goods, and the U.S.A. produces some kind of paper. By paper, I mean dollar bills and different forms of derivatives, as well as Treasury bonds, bills, debts—all kinds of debt—Freddie Macs, and Fannie Maes, and so on. So, this is a very curious kind of international division of labor: Some people produce things, and some people produce paper.

There is a joke: If I got a loan from a bank, for example \$1,000, and I have nothing to pay them for this credit, I go to my banker and I say, “Listen, I have a problem, I can’t pay you.” But if this credit was not \$1,000, but for example, \$10 or \$100 million, I go to my banker and say, “Listen, you have a problem, I will not pay you!”

So, the whole financial system is now almost bankrupt. It really is bankrupt, but still it is a technical question, when this process will be completed. But it is only a matter of time, not a final decision.

We are now in a situation, where the discussion of such matters as a New Bretton Woods system or something of the kind, is a very keen problem, a real problem. Because I think that if politicians and professionals nowadays do not invent a new system, then this system will invent itself. We’ll see.

At the end of December, a Chinese statistical or census bureau published some very interesting information. For the last year, they had a kind of economic census, with one in every hundred Chinese participating. And the result was astonishing: They found some 16.5% of additional GDP! But truly, it is not that they didn’t know about it earlier. It’s just the Chinese way of thinking and publishing their news to the whole world community. It’s an Asian way of thinking: You must be not too big in everyone else’s eyes.

So now, they’re preparing to introduce this true situation to whole world community. What does it mean, 16.5%? Let’s make some calculations. We add this 16.5% to the 2004 GDP results; then we add 10% more, which was the GDP growth in 2005; then we multiply it by the official rate of the Chinese yuan, and we get some \$2 trillion. But this is not the real situation, because everybody knows that the yuan is extremely undervalued. And if you use purchasing-power parity—this is the true value of the currency: what you can buy with it. According to official World Bank figures, the Chinese yuan is undervalued by a factor of 4.5. So, we multiply this \$1.9—almost \$2 trillion—by 4.5, and we get

more than \$9 trillion.

The American economy is now officially somewhere around \$11 trillion. But, there’s a curious thing also, in the American GDP statistics: They include some kind of “imputed rent.” Do you know what I mean? If I rent a house to you, I produce some kind of a service. It could be valued and added to the GDP. But, what if I live in my own home? This “imputed rent” is calculated as if I were paying myself this rent money for this virtual service. No other country in the world has this as part of its GDP statistics! It’s 10% of the GDP of the United States of America. So, 10% less.

And now you have at least, that the Chinese economy is just like the American economy in size. And maybe this year, 2006, it will be the greatest economy in the world. It’s a completely new situation. Politicians aren’t used to this situation at all.

I suppose that if Western politicians and professionals will not discuss this Bretton Woods system within a very short time—maybe 5 or 10 years—then China will make a final strike against dollar hegemony, and propose its own currency as a world currency, without any discussion. . . .

Policy Shifts in Russia

Now, regarding these signs of a new policy in Russia. Yes, these words by Dmitri Medvedev are of very high importance, but they are not the only sign. It was just in May that Aleksei Kudrin, who is the Finance Minister of Russia, went to Washington to the G-8 meeting, and he gave an interview to American television and the Reuter agency, which was widely published in the world. He said that it is strange that we live in a situation where the world reserve currency is so unsustainable. And he strongly criticized this twin deficit situation in the United States, and he said that this whole situation is unsustainable. So it is also a sign that the Russian leadership now acknowledges this problem.

Then, on May 10, there was Putin’s address to Parliament and the nation. It was an absolutely new phenomenon, with absolutely new language, absolutely new ideas, ideas about a transcontinental Eurasian Land-Bridge, for example, in this address. Ideas of not just restoring the potential of Russian industry, but of super-industrialization, of new technologies, new energy. The whole project is, so to speak, a kind of concept for a new doctrine. Maybe it is just some kind of fake—maybe. We don’t know still, because there must be actions that prove it—this way or that way.

This month, just before my arrival here, I had some work as an expert. In Moscow there is a Higher School of Management; it is a body of the ruling party. And they are now preparing a textbook for party ideologists and activists. And I was writing three paragraphs for three teams, three economic teams, for this. All the ideas are completely new: modernization, sovereignty, and all kinds of things. I suppose that this process certainly is an inertial process; but if things move, this inertia will also exist! The inertia of moving.

So, maybe we are just at the beginning of this complete turn to a new paradigm. And I suppose that opens up new possibilities, new opportunities for the world economy and for Eurasian cooperation, which Mr. LaRouche talks about.

Thank you very much.