# Business Briefs

*Currency*

## Russian Economist Sees Dollar Crash

The Moscow daily *Komsomolskaya Pravda* on Jan. 4 rounded up various experts' forecasts for 2007, most of them focussed on the run-up to the Russian Presidential election of March 2, 2008. But economist Mikhail Leontyev, host of the Odnako (However) program on First Channel TV, said the top priority for Russia would be to strengthen the ruble as "a full-fledged sovereign currency," in anticipation of the crash of the dollar system. At present, said Leontyev, "Our Stabilization Fund and reserves are mostly invested in U.S. assets. We have one year to establish a sovereign system that's disaster-proof to some extent, or at least shielded from the cataclysms that may befall the dollar-based economy. . . . We need to stop holding our currency reserves in dollars. We need to invest the Stabilization Fund in Russia. If this happens, we shall become one of the leading powers in the multipolar world of the future; if not, we'll cease to exist as a sovereign state."

*Monetary System*

## World Faces Major Economic Risks

The Davos World Economic Forum released a report on global risk which includes economic, environmental, geopolitical, societal, and technological risks, the *Daily Telegraph* reported Jan. 11.

The economic risks include an oil price shock, the U.S. current account deficit/fall in the U.S. dollar, a Chinese hard economic landing, a fiscal crisis caused by demographic shifts, and a blow-up in asset prices and excessive indebtedness. All of this, they fear, will lead to a retrenchment of globalization—which is itself a risk. The debt and housing bubble which has built up around the world could burst, causing more than $1 trillion in damage.

In a comment on the report, the *Telegraph* quotes the chief executive of Marsh and McLennan, Michael Cherkasy, as saying, "The world has certainly become a riskier place to live, thanks partly to globalization."

*Mergers*

## Congress Moves To Stop Airline Takeovers

The Senate Commerce, Science, and Transportation Committee, now headed by Democrat Daniel Inouye of Hawaii, has set hearings for Jan. 24 on airline takeovers. Committee member Sen. Byron Dorgan (D-N.D.) said, "I don't think we need less competition, I think we need more. From the standpoint of consumers, I don't think it's beneficial to see some of the largest carriers marry up." A staffer for the chairman of the House Transportation Committee, Rep. James Oberstar (D-Minn), told ABC News Jan. 11 that Oberstar has "very strong concerns" about any airline mergers; and Oberstar himself has said he wants to stop the biggest potential takeover, of bankrupt Delta Airlines by recently bankrupt USAirways.

On Jan. 10, USAir announced an increase in its hostile bid for Delta, from $8 billion to $10 billion. Of that, $5 billion would be borrowed from UBS AG and other banks, and thus become new debt piled on Delta *while in bankruptcy!* In fact, USAir CEO Michael Parker, a bank/hedge fund puppet, is insisting on the takeover during the bankruptcy in order to get the judge to impose a new round of salary and job cuts on the airline's unions. It would also shrink the combined airline's flights and fleet by more than 10%.

In this lunatic merger, USAir's borrowing would go to pay *unsecured* creditors of Delta—those who are *not* supposed to get paid in a bankruptcy reorganization plan. In fact, Delta management, which opposes the offer, is now drawn into a bidding contest, to see how much *it* can borrow to pay off these same unsecured creditors without a takeover! The apparent referee is Norman Bethune, the former butcher of Continental Airlines in the 1990s, who has become head of a committee of Delta creditors which is trying to decide Delta's fate. Bethune calls himself "a proponent of stabilizing the industry by consolidating."

*China*

## People's Bank To Reduce Liquidity, 'If Necessary'

The People's Bank of China will take further measures to reduce liquidity in the country, if necessary, stated PBOC governor Zhou Xiaochuan at central bankers' meetings at the Bank for International Settlements in Basel. Zhou said that policy changes are designed to cope with the excess liquidity in the market. "We are not ruling out the possibility of using more measures, but we have to see the effectiveness of the current policies," Zhou said.

The PBOC has just announced that banks, as of Jan. 15, will have to raise their reserve ratio by 0.5%, which will keep some 150 billion yuan from flooding the stock market, the Hong Kong Standard reported Jan. 9.

In addition to its huge trade surplus, China also has been receiving a big flow of foreign direct investment, which is also pushing up its foreign exchange reserves.

"We don't know what the trend of the market demand and supply will be for this year," Zhou said. "So far, there is more supply of foreign exchange than demand for it."

Bloomberg quoted Zhou Xiaochuan also saying that, "The data from 2006 show that China's trade surplus has been increasing, and if this situation continues, then I think the flexibility of the exchange rate will be increased." The RMB has risen 5.7% against the dollar since July 2005, and the national Xinhua Economic Analysis report of Jan. 2 said it could rise by another 5% in 2007.

Zhou had told visiting U.S. Treasury Secretary Henry Paulson in December, that he wants to increase the flexibility of the yuan at a "gradual" pace.