LaRouche's economics is posed in Moscow debate

by William Engdahl

There appears to be a far healthier debate over fundamental economic policy inside Russia than is evident from most western media coverage. Based on discussions with a broad range of Russian policymakers and economists, the picture which emerges is a broad-based rejection of the dangerous demands of International Monetary Fund (IMF) "shock therapy" and a serious effort to find the unique resources and strategy for a transformation of the economy based on the cultural and historical specifics of Russia, rather than a foolish mechanical formula for "world market price" reform and budget balancing as demanded by the Group of Seven (G-7) industrialized nations since the July 1990 Houston economic summit.

Two representatives of American economist Lyndon LaRouche, from the Germany office of the Schiller Institute, were invited to a two-day seminar May 5-6 in Moscow, organized by the Russian Institute for Strategic Studies (RISS). The seminar was on the theme "Financial Strategy of the Economic Reform." The seminar itself was an unusually well-chosen selection of a broad range of viewpoints, both from the Russian side as well as from western invited guests. Included were senior Russian government representatives from the Central Bank, the Economics Ministry, the Foreign Ministry, the Supreme Soviet, and several economic policy institutes, as well as the Russian Academy of Sciences. Foreign guests included representatives from the embassies of the United States, Japan, and Poland, a former member of the Austrian government, and several western economists and banking representatives.

The RISS was established in February 1992 by a decree from President Boris Yeltsin to provide information and analysis for the highest bodies of executive as well as legislative power in Russia. Its domain encompasses issues of defense, national security, and economic policy.

The seminar provided the occasion to place the economic perspective of LaRouche at the center of the intense Russian policy debate. The meeting took place only days after the April 25 Russian referendum, which had given a clear "yes" to continued reform in Russia, but with no clear mandate for a given economic course. The mood was one in which all felt the process of change to be irreversible, but the content of reform policy was by no means agreed.

The results of shock therapy

The results of more than one year of IMF-mandated monetary "shock therapy" in Russia, implemented in January 1992 under then Economics Minister Yegor Gaidar, were starkly outlined by V.I. Milovankin, a representative of the Russian Ministry of Economics. "Since the first quarter of 1992," he noted, "Russia's national income has fallen 20%, while retail prices have increased 32-fold on average. In 1993, we expect little improvement, with output falling another 7-12%, unemployment rising by some 3-5 million, and another sixfold price increase."

Milovankin pointed out that today, debts between state enterprises, incurred as a direct consequence of the IMF's demand for a zero state budget deficit, totalled 3.8 trillion rubles, up from almost nothing a year ago, while the budget deficit itself is another R 1.6 trillion, 11% of GNP. In the first three months of this year, fuel and energy sector output fell by 15% and machine construction dropped 14%. Overall, investment into rebuilding Russia's crumbling industrial plant and equipment fell by 56% in 1992, the first year of "shock therapy." These figures provided the background for a vigorous debate about the fundamentals of Russia's economic change.

A Marshall Plan for Russia?

A central theme of the deliberations was a proposal drawn up by the largest Austrian bank, Bank Austria, outlining ideas for a new Marshall Plan for Russia and eastern Europe. The proposal, in sharp contrast to present G-7 efforts, sets a realistic target of an estimated $300 billion annual investment need in Russia and the other republics of the former Soviet Union and eastern Europe. Of this total, an estimated $70 billion per year would be required from foreign capital—not an awesome sum when the alternatives of chaos and instability are taken into account—with a specific "Marshall Plan" fund providing some 10% of needed investment, or $180 billion over six years. Unlike the present G-7 aid to Russia, in which all is contingent on self-defeating IMF austerity conditionalities, the new proposal would draw upon help from a broad range of OECD countries.

Speaking on behalf of Bank Austria, Helmut Bohunovski addressed the current problem of lack of western bank credits for Russia. "Western banks today cannot give credit to Russia without government guarantee," he noted. "But we face a real danger of technological collapse if Russia cannot get credit to import needed machines from the West to rebuild industry. Right now, Russian debt trades at 20% of par value on western secondary markets. Banks have strict audit controls from their government regulators which make it impossible to expect them to extend needed credits. Western governments must change this restraint to enable banks to lend."

To help overcome this bottleneck, Bohunovski proposed bank "pre-export financing," with western bank partners providing bridge credits to a Russian firm importing needed machines collateralized by that firm's raw material or other output, for, say, a 12-month period. "The Russian firm needs to import machinery to resume production, but cannot pay hard currency cash up front," he stressed. In this scheme, the bank creditor gets the physical goods and acts as a kind of clearing house in countertrade. "From its side, Russia must also act to remove barriers such as the overly complex export licensing, duties, and duplicative division of administrative responsibility." He stressed that in such an emergency arrangement, the western bank, with support of its home government, must be in a position to ensure that the credits go directly to areas which are needed to revive the civilian economy, and not to feed the flourishing underground mafia economy which has grown up as a result of the IMF monetary shock since 1992.

This writer delivered an analysis of the economic situation in Russia and globally. "This IMF program for Russia was self-contradictory and self-defeating," Engdahl told the group. "It produced the predictable result of economic chaos and breakdown. The obvious question is, are the economists of the IMF incompetent or do they willfully impose such chaos?" He then outlined the political decision from the Bush and Thatcher governments in the July 1990 Houston economic summit to place the IMF in the inappropriate role of dictating Russia's economic course.

The background to the insistence on the IMF role, Engdahl noted, is the 1904 Halford Mackinder policy of "British geopolitics," which mandates that industrial cooperation between Russia and continental Europe, notably Germany, is to be prevented at all costs. "This doctrine became live, operational policy after the fall of the Berlin Wall in 1989, and the collapse of the Warsaw Pact," Engdahl stressed, citing a flood of articles from British and U.S. strategists including Henry Kissinger. "In 1989, not just one of the world superpowers, Moscow, was bankrupt," he noted. "The second, the United States, and with it Britain, also entered into the beginning of the worst depression since the 1930s. Only, sadly, outside the role of my organization, there is not yet a similar debate about fundamentals of economic policy taking place in the United States or the West," Engdahl stated.

He then pointed to the leading opponent of this geopolitical madness, American economist Lyndon LaRouche, "a man whose name is well known in leading Russian quarters." LaRouche's 1989 proposal for an advanced high-speed rail infrastructure policy to eastern Europe and Russia, and LaRouche's long-standing, vocal opposition to IMF policy in Ibero-America, were then laid out.

Jonathan Tennenbaum of the Schiller Institute then presented LaRouche's role since 1981-82 in proposing Russian-U.S. joint cooperation to develop anti-missile defense technologies based on "new physical principles." He pointed out that LaRouche's Strategic Defense Initiative proposal was intended from the outset to be a technological catalyst for reviving the collapsing industrial structures of Russia's economy, and of shifting the negative trend in OECD economic policies visible since the oil shocks of the 1970s. The April 2 *Izvestia* article reviving the essence of LaRouche's original SDI technology-sharing concept in regard to advanced R&D developments by Russia on plasmoids and other areas, was cited by Tennenbaum as a most encouraging development which should be pursued.

He developed the 1989 LaRouche proposal for a high-speed rail infrastructure, "a Eurasian infrastructure alliance," to link the industrial capacities of central Europe to the CIS region. He stressed that only such an infrastructure and technology-led approach can rebuild the collapsing economic capacities of Russia and eastern Europe.

The comments of the two LaRouche representatives drew an immediate response from Prof. Andrzej Brzeski of the University of California at Davis, speaking on behalf of the Heritage Foundation, an extreme "free market" organization based in Washington. "The way to stop inflation in Russia is simple: Stop the supply of money." No matter that in Russia's state-owned economy this means bankrupting the totality of industrial and agriculture production. "Economic shock therapy has not yet been tried in Russia, and this is the problem. If you look at Poland, where it has, there things are improving visibly," he insisted. He warned, in an intervention which has to be characterized as comic, that the "proposals of the LaRouche people would mean a return to Stalin economics for Russia." The audience seemed less than convinced.

A Euro-train project

At the end of the two days, Dr. Yuri Stsepinsky, director of the RISS, presented a promising proposal. He pointed to the unavoidable reality that fully "60% of Russia's economic resources are located in defense-related production and research." To simply let this go in an IMF-style "free market" sell-off would be unrealistic. "No country in the world has the situation where the state simply cuts loose all its military hardware."

Instead, Stsepinsky proposed transforming these R&D and industrial capacities into rebuilding the infrastructure and economy of Russia and eastern Europe. "Why not develop a 'Euro-train' project? Now Russia has a broader-gauge rail which means inefficient bottlenecks on the borders to the western markets. We must think of developing new types of advanced rail transport which will link us with western Europe, Moscow-to-Paris, and so on. We must shift our gauge to the European standard. We have the ability to build modern rolling stock. Russia can produce modern rail engines. We must also think in terms of building a maglev link between Moscow and the West."

He also suggested cooperation in the area of telecommunications. "The West to date has sought to allocate to us a very narrow role in providing rocket boosters. But we have, for example, very reliable small-scale nuclear power reactor technology for communications satellites, but the firm producing them is under attack from rival western competitors who lack such capacities. We are willing to share such technologies with western partners, but it must be on a legitimate basis."

Blast against monetarism in Russia cites LaRouche

On May 7, the Moscow daily *Nezavisimaya Gazeta* carried Prof. Taras Muranivsky's article, "Reforms and Common Sense," which exposes the disastrous incompetence of the economic reforms adopted so far in Ukraine and Russia. "Monetarism leads any economy to catastrophe," he writes. "The alternative is a shift of the economic policy of the state to the principles of physical economy."

Muranivsky, who was the scientific editor of the Russian edition of Lyndon LaRouche's book *So, You Wish to Learn All About Economics?* published last year, identifies physical economy with LaRouche. *Nezavisimaya Gazeta* reaches hundreds of thousands of readers.

The article chiefly analyzes the reform program adopted in Ukraine in 1992, but Muranivsky points out that the results there are like what has happened in Russia. In both countries, "there is an unprecedented collapse of production, hyperinflation is raging, unbridled speculation flourishes, while there is a fantastical accumulation of fortunes against the backdrop of, and at the cost of, the abrupt, mass impoverishment of people."

The reason for the failure of the reforms, the author urges, should be sought in their theoretical basis—monetarism. According to this dogma, "the economy should be tossed into the slough of elemental market forces, and let it wallow there as best it can, while the population keeps tightening their belts until the 'invisible hand' straightens everything out. The reigning principle here is a cruel battle for survival—completely in accord with the anti-humanitarian ideology of Adam Smith and his modern successor Milton Friedman: Whoever is stronger and sneakier will survive at the expense of weaker and honest people. Monetarism underlies both the theory of the 'free market,' and Marxist political economy."

But, "a qualitatively different direction has been developed in economic science and the practice of economic management, which the American economist Lyndon LaRouche has named 'physical economy.' Unlike political economy, it is one of the natural sciences. It studies economic and social processes in their harmonic unity with energetic and technological ones. Physical economy rejects the absurd assertion that the state should not interfere in economic processes. The Soviet experience of command economic management, which was negative and contradicted common sense, does not at all mean that the economy needs no management. If a driver breaks the rules of the road and runs his car into a ditch, it doesn't mean that the car should be sent out on the road without a driver."

Muranivsky discusses historical examples of state economic regulation that were not like Soviet central planning, such as the successful reconstruction programs in France, Germany, and Japan after World War II. The state properly restrains "immoral free market activities" like speculation and usury. Contrary to this successful experience, "Ukraine's monetarist program openly states the necessity of 'using the principles of the International Monetary Fund.' Is there really insufficient evidence, that the IMF is nothing but a usurer and pillager of the Third World countries?"

To rectify the situation, concludes Muranivsky, Ukraine should begin "not with money, but with the economy," and use the principles of physical economy to find scientific economic, monetary, legal, and organizational means to revive production.