

‘National liberals’ try to kidnap Russia’s economic policy

by Jonathan Tennenbaum

With his first-round election victory on March 26, Acting President, and now President-elect, Vladimir Putin has a mandate to launch the kind of dirigistic economic mobilization of Russia, which is urgently needed, to reverse the catastrophic collapse of production and living standards that has occurred over the past decade as a result of “shock therapy” and so-called “liberal reforms.” Various statements by Putin himself have raised the hope, that this is indeed what Russia’s dynamic new head of state has in mind.

In his article on “Russia at the Doorstep of the New Millennium,” published at the end of last year, just days before Boris Yeltsin’s resignation from the Presidency, Putin emphasized that Russia had come to an “absolute limit,” where a further deterioration of the life of its citizens had to be prevented by all means; and, that strong intervention by the government into the economic and social sphere would be necessary, including the channelling of investment into the “real sector” of the economy and mobilizing Russia’s most advanced technological potentials, centered in the scientific-military-industrial complex. In his “Letter to Voters,” issued in lieu of an election program, Putin told the Russian population to view his own demonstration of strength and decisiveness in dealing with the Chechen separatists, as a paradigm for the kind of straightforward and potent approach he would take toward Russia’s many other problems, the economic situation above all. Instead of endlessly squabbling over abstract ideologies and academic studies, the time had come to jump into the middle of Russia’s problems and grapple with them directly, Putin declared. He pledged to gather the “best minds in Russia,” regardless of political ideological color, to work out real programs and solutions for rebuilding the country.

Economic competence needed

With great hopes having thus been raised, and with a strong popular mandate behind him, it is indeed surely time for Putin to put together a “general staff” of those economists, scientists, industrial managers, and others, who are the best qualified to lead a dirigistic national-economic mobilization. At the top of the list should obviously be people like Sergei Glazyev, well known as one of the most brilliant young economists in Russia—people who have been the most devastatingly truthful in attacking the policies that have destroyed the Russian economy, and who have long prepared themselves through thorough study, not only of Russia’s mobilization potentials and problems, but also of such historical precedents as the economic mobilization of the United States under Franklin Delano Roosevelt. Required above all, is a grasp of the principles of physical economy, as embodied in the work of Leibniz, Hamilton, Carey, List, Witte and Mendeleyev in Russia, and, in most recent times, Lyndon LaRouche. Thanks to the work of Moscow Schiller Institute President Prof. Taras Muranivsky and others, LaRouche’s ideas have become widely known and studied in Russia for many years.

Unfortunately, the kind of economic competence, which Russia urgently requires now, appears singularly lacking among Putin’s entourage, as well as on the list of those under public discussion as potential cabinet members and advisers in the new government, to be officially formed after Putin’s inauguration on May 5. Like Putin himself, most of the people in his entourage are lawyers, diplomats, or persons with a background in the intelligence field, who have little knowledge and experience in science and industry, not to speak of expertise in economics as such. The man purported to be Putin’s main economic adviser, German Gref, is also origi-



German Gref, head of the Center for Strategic Projects which is advising President-elect Vladimir Putin on economic policy. Gref describes himself as a "romanticist of privatization."

nally a lawyer, whose main economic experience is the privatization of public property.

More worrisome, is the present hyperactivity of old and new "young reformers," who are evidently looking to Putin as the "strong man" who is going to push through a new, "corrected," and more "disciplined" version of the same British-style liberal economic doctrines, that have already plunged Russia into total disaster. Amid this swarm of old and new "liberal reformers," who are currently buzzing around the Kremlin, is Anatoli Chubais, one of the most hated persons in Russia for his role in the brutal looting of the country, but who nonetheless continues to orbit at a certain distance from Putin and is even mooted by some (perhaps in merely wishful thinking) as a possible candidate for a leading post in the new government. A different case, is the role of German Gref, a self-described "conservative liberal" who heads the Center for Strategic Projects, set up at the request of Putin to develop a comprehensive long-term strategy for the coming new government. Gref is reportedly a favorite for the post of Economics Minister.

Another, wilder specimen of this phenomenon is the British-connected veteran "young reformer" Vladimir Mau, who works in and around Gref's Center for Strategic Projects. Mau goes beyond advocating the so-called "Pinochet" model—the Chilean General's name is appropriately used as shorthand for the administration of liberal economics by a strong-man regime—and compares the present period in Russia to France of 1796-99, when "a consolidation of the new and old elites" occurred under Napoleon. In a recent commentary on the website of Gleb Pavlovsky (see below), Mau has even started talking about "the 18th Brumaire of Vladimir Putin."

Foreign influence

None of these fanfares mean, of course, that Putin will do what these "national liberals" want him to. In interviews, Gref, Mau, and others have themselves stressed that they do not control the President, that there are strong differences in views among top Russian institutions, and that Putin could

very well end up taking an entirely different policy course from the one they are recommending. The same anxiety has been voiced privately by British insiders with hooks into the Russian liberal establishment.

Nevertheless, one should not underestimate the influence of Anglo-American-linked liberal circles in Russia, particularly in light of British Prime Minister Tony Blair's recent new romance with Russia and Putin—a phenomenon which, albeit still in its initial stages, already calls up memories of Margaret Thatcher's disgusting "Gorbomania" in the mid-1980s. Exploiting the vacuum left by a lame-duck U.S. President Clinton and by the stupidity and paralysis of the continental Europeans, the British establishment is trying to maneuver itself into a geopolitical "special relationship" with Moscow, offering to open up flows of foreign investment which Putin himself has declared as absolutely indispensable for Russia's economic survival.

The prospect of attracting foreign money, in fact, is the major pretext the International Monetary Fund-style "liberal reformers" have always offered for insinuating themselves into government positions. The argument goes: "Don't be overheard talking about dirigistic economic mobilizations, or you will scare away all the foreign investors!" However, the whole game of dangling foreign investment in front of Russia, will not go on for much longer. The impending financial collapse in the West is already shaping the policy discussion in Russia. As former Deputy Foreign Minister Andrei Fyodorov told a German audience in Bonn on March 28, strategic policy documents already submitted to Acting President Putin contain two main scenarios for global developments, one of which projects the consequences of devastating financial collapse in the United States.

The reformed 'reformers'

The new activation of "liberal reformers," who had fallen into more or less profound disgrace no later than the Russian financial collapse of August 1998, has been accompanied by a certain change in tactics. In the earlier 1991-92 phase of "shock therapy," the wholesale dismantling of the central state—and, above all, the economic role of the state—was hailed by "young reformers" as the golden pathway to economic prosperity. This time around, however, key liberal reformers are now coming out as "statists" or "national liberals," talking about the need to create a strong state, with a strongman at its top, as the guarantor "property rights," of a "level playing field" for competition among the various economic "players," and of Russia's potential to compete on the globalized world market—all expressions which have also been used by Putin.

In one respect, the re-emphasis on state power is an unavoidable concession to the simple reality, that although the nearly total lawlessness, created by shock therapy, has permitted a thin layer of people, dubbed the "New Russians," to become rich beyond their wildest dreams, it has also cut Rus-

sia off from significant foreign investment and made substantial long-term investments of any kind virtually impossible. Russia has collapsed to the point that even so-called oligarchs require a certain consolidation of the central state and economic base, to continue operating. Furthermore, without a speedy consolidation, including a certain modernization of the aging military-industrial complex, the prospect of Rus-

sia's return to world power status in the foreseeable future drop rapidly to zero.

In this context it is relevant to note, that the show of patriotic fervor, put on by Chubais, Boris Berezovsky, and certain other members of the group labelled as the oligarchs (even as they engage in internecine cat-fights among themselves), as well as large sections of the mainly oligarch-controlled Rus-

LaRouche: the blunders of Western strategists

During his campaign webcast of March 23, Democratic Party Presidential pre-candidate Lyndon LaRouche took the occasion of a question from Prof. Stanislav Menshikov, on the eve of Vladimir Putin's election as Russian President, to make a statement about the lethal failures of Western policy toward Russia, and how it should be changed. The exchange is excerpted, here.

Menshikov: . . . Now, we are having an election this Sunday, and we're going to have a strong President for a change, instead of Mr. Yeltsin. A strong, energetic, and young President. Now, apart from the economic proposals that Mr. LaRouche has made toward Russia, this big conference on economic and financial issues, what are your positions, Lyndon, on some of the issues of foreign policy that are worrying our whole nation and the President, of course, our future President, and that is basically on the expansion of NATO, number one, on the Anti-Ballistic Missile Treaty, number two, on the Chechen military situation, number three?

LaRouche: Well, first of all, the key problem here is that we have an attempt to turn back the clock of history, to the conditions before the 15th Century in Europe. That is, to go back to what was then the feudal system, which would be called in modern terms a system of radical free trade, and of globalizations.

Now, the intent has been, and was stated explicitly by George Bush and others in 1989 and on, to establish a "New World Order," which is an order of globalization. This means, of course, also to destroy the capability of Russia's restoration to a position as again a world power. Or, China's position as a world power. China is essentially not a world power, it's a regional power, but it has a potential, way down the line, as a powerful nation-state, to become essentially, partly a world power.

So, the problem here essentially is the prohibition of the continued existence of nation-state economies. Now

this problem reflects itself in the current rise of deep resentment, especially since the last Balkan war, which is really still ongoing, and since the attacks by mercenary forces directed from outside [in the North Caucasus], by the same people around Bush and Jimmy Goldsmith who ran the Afghanistan war, to deploy these mercenaries, these trans-Caucasians, into Central Asia and elsewhere, to destroy essentially anything resembling what had been there under the Soviet Union. This has produced a reflex, in which Russia has instinctively drawn a line in the sand, and said, "We are not going to be destroyed." And Russia's long history as a nation instinctively creates a potential for that. At this point, the candidacy of Vladimir Putin, the Acting President, becomes a rallying point in the minds of many for saying, "No further. Stop it."

NATO should have been dissolved after the '89, '91 events—there's no legitimate reason for it. You now have a situation, in my view, in which the relationship between Belarus and Russia, puts Russian troops on the border against NATO troops on the Polish border. This is a nightmare for Poland, it's a nightmare for all of Europe. Obviously, NATO should have been dissolved. And a new organization, based on cooperation as a diplomatic organization, to coordinate military relations, should have been established instead, to enable the transition to the economic recovery of Russia and other countries under the new conditions. That was not done.

My view on how this should be approached in practice is, I say that you take Russia, China, India, as three key nations in Eurasia which have a certain historic relation to each other, you combine that with a continental Europe based on Germany, you look at the vital economic and national-security interests of continental Europe, in particular centered around Germany, and you look at the economic problems which go with these interests—you would say the sane world is one in which the President of the United States, the key leaders in Europe, including Germany, Russia, China, India, would sponsor an international emergency conference to deal with the breakdown of the present international financial and monetary system, to do as was done, in a sense, in 1944, in that precedent, to create a new monetary system using the best lessons of experience from the 1944-58 period, plus and minus. And we could put something together fairly quickly.

sian media, in connection with the second Chechnya war, contained an unmistakable element of cynical calculation. On the one hand, there has been a real closing of the ranks in Russian society, against what is perceived as acute economic, political, and strategic threats to Russia's very survival; and Putin enjoys broad support in all layers of the population for having drawn the line in Chechnya and elsewhere. On the

Under those conditions, to establish a new monetary system that would be workable, which would do what the Marshall Plan and what the old Bretton Woods system did, in Western Europe for example, to do that, would mean we would have to restore to full authority, the principle of the sovereign nation-state. Because without the ability of nation-states to regulate and create credit, and to create long-term agreements to stabilize the prices of currencies and so forth, to stabilize low-cost interest rates, it will be impossible to reconstruct the world from the present catastrophe which is about to strike it. So, I think the whole thing has to go together as one package, that we have to understand among ourselves first of all, before we get to that point, that *that's where we should go*.

A New Bretton Woods conference

We should recognize that the crisis as it's onrushing should be accepted by everyone as a signal that in this case, I'm right and they were wrong. This system is not going to survive. It's coming down, and it's coming down *now*. We can either be sane, and recognize that and react accordingly, or we can be insane, and continue the way we're going now. If we're sane, we're going to say: Russia, China, India, people in Europe and the United States, are going to call an international conference of nations to replace the old Bretton Woods conference, an emergency conference to put the present system into bankruptcy reorganization, and set into motion the kinds of measures we should have learned from the postwar period of economic reconstruction, particularly the first 20 years' period after World War II. And learn from the pluses and minuses of that period exactly what we have to do, but this time, bringing the majority of the human race, as typified by Russia, China, India, and adjoining nations, into the management of the new system, so there's true equity.

I think that's the strategic perspective we must adopt, and I would hope that in the case of the Russian elections, that Europeans, people in the United States, would look at the crisis, and look at Russia, and take the Russian election campaign as a signal, and also the Taiwan cross-strait China crisis being orchestrated, take these as signals that the time has come to do this. If we do that, then I think the strategic issues, the foreign policy issues, can fall into place.

other hand, as has repeatedly occurred in history, the oligarchical enemies of the nation-state often attempt to ride on waves of national patriotic sentiment, and to try to maneuver themselves into a position, where they can brand any opposition to their policies as treasonous.

From the standpoint of the new "national liberals," the perception of an outside threat can provide a short-cut to imposing the particular sort of "strong state," including harsh austerity measures, which their policies require. But that implicitly proto-fascist, "Roman" notion of the state has nothing to do with the kind of creative leadership a nation needs, to carry out a successful, science- and technology-based economic mobilization.

The fallacies of German Gref

Late last year, while Putin was still Prime Minister, he caused an unusual institution called the Center for Strategic Projects to be set up, "to prepare recommendations to the government" on a comprehensive range of issues, from economic policy to the framing of a new set of moral and social values for Russia. Perhaps for election reasons, the Center was not officially connected with the government, nor publicly financed, but has been sponsored privately by large companies, including Gazprom, Chubais's United Energy Systems, and others. Nevertheless, as Center director Gref emphasized in a recent interview, all economic legislation and measures of the government were being sent there for checking and "corrections." Gref furthermore agreed to the characterization of the Center as an equivalent, in terms of formulating a powerful new state policy, to the famous Kurchatov Institute, where the Soviet atomic bomb was developed.

The Center is located in Alexander House, a modern building originally constructed for "oligarch" Alexander Smolensky's Stolichny Bank. Soon, Putin's election campaign staff moved into the same building, on the floor above the Center. The same Alexander House is also home to the Effective Policy Institute of notorious psychological profiler and expert on mass manipulation, Gleb Pavlovsky. Formerly a student and collaborator of the late Yevgeni Gnedin, son of the infamous Anglo-American "Trust" agent Alexander Helphand Parvus, Pavlovsky was an important figure in dissident circles, through which the liberal economic ideology was introduced into the Soviet Union. In the 1990s, he developed close relations with the U.S. Republican Party's International Republican Institute, and was a pioneer in the use of the Internet in Russia.

Pavlovsky also advised the Yeltsin family in critical periods, carrying out a number of media dirty tricks on their behalf. He boasts that he was part of the "conceptual" process of deliberation, which led to the selection of Putin as Yeltsin's successor. In the later phases of Putin's Presidential campaign, Pavlovsky emerged more and more openly as a key adviser to the campaign, finally taking credit for the decision for Putin not to issue any program (for a program, Pavlovsky argued, would only alienate potential voters and narrow his

support), nor to engage in any policy debates, in favor of an American-style approach based on creating “images.” Reportedly, there was close coordination between Pavlovsky, Putin’s campaign staff, and Gref’s Center during the election campaign.

Named to head the Center for Strategic Projects, Gref already had well-established relations with Putin, going back to Gref’s studies at the law faculty of St. Petersburg University (with which Putin and Putin’s early professor, St. Petersburg Mayor Anatoli Sobchak, were associated), and Gref’s later appointment as vice-chairman and then head of the St. Petersburg branch of the Committee on State Property, at a time when Putin was de facto running the city administration. Gref also developed close ties to Chubais, and appears to have been involved mostly in real estate deals.

From this time onwards, Gref became what he himself terms a “romanticist of privatization.” He admitted to a Russia interviewer, however, that there were naive errors in the original approach of the reformers, who did not take into account the “Russian mentality.” To explain what he meant by this, Gref said that when faced with a choice between “a bottle of vodka today or \$10,000 tomorrow,” the typical Russian will choose the vodka. Russian economic policies must be designed accordingly! Needless to say, Gref’s cynical view of the Russian population, whatever cultural weaknesses may exist, is the exact opposite of what is required to lead a true economic mobilization. To accomplish the latter, it is necessary to uplift the population, rather than adapting to its weak-

nesses; and to bring out the best in people, as Franklin Roosevelt once strove to do with his fireside chats.

The role of the state

Gref described the philosophy of the economic program the Center is developing for Putin in a nutshell, by saying, “We plan a liberal model with quite a lot of state regulation of the economy.” At the same time, he hastens to add that when Putin says, “I am for strengthening the role of the state,” the new Russian President allegedly means this only in the sense of “establishing the rules of the game,” and “creating equal conditions for competition.” Thus, a March 22 interview with Gref in the financial daily *Kommersant* contained the following exchange:

Q: In short, are you planning to strengthen the state in such a way as to give entrepreneurs more freedom?

Gref: Yes. Strengthening by way of the state’s withdrawal from what in principle it should not be involved in. And, at long last, the state should get down to its basic function—law enforcement, the judiciary, and administration.”

Here and elsewhere, Gref reveals his legalistic, essentially Hobbesian notion, typical of British liberalism, according to which the state is a mere umpire or referee for the economic game. He shows no understanding of a nation-state whose basic function is to serve as an instrument for the perfection of human society and the maximum possible development of the divine spark in every human being. Without that, by degrading the state to a mere legal framework, it is deprived

Some sanity inside the Washington Beltway

On March 27, one day after the Russian Presidential elections, a group of scholars and diplomats gathered at the Washington offices of the Atlantic Council of the United States to assess Vladimir Putin’s victory. In stark contrast with the usual “inside the Beltway” think-tank babblings, the speakers—the Atlantic Council’s E. Wayne Merry, Carnegie Endowment’s Thomas Graham, and McMaster University historian John Colarusso—argued against the buildup of a “cult of personality” around the newly elected Russian President, and the glib assumption that Russia will now go back to its “authoritarian, undemocratic” roots and become a new threat to security and stability in Eurasia.

Merry set the tone for the discussion by warning against any hasty conclusions about what path Putin will take. The only thing that is clear about the outcome of the Russian elections, he argued, is that the “Washington Consensus on Economic Policy” is dead in Russia—for-

ever. The 80% vote for Putin and Communist Party candidate Gennadi Zyuganov, Merry said, was a vote against the combined economic policies of the International Monetary Fund and U.S. Secretary of the Treasury Lawrence Summers. Merry later acknowledged that, unfortunately, the “Washington Consensus” may be dead in Moscow, but it is alive and well in the United States. Corrupt figures, like Jeffrey Sachs, whose Harvard Institute was caught profiteering off of its bad advice to the Yeltsin-era Russian governments, is fighting to retain control over Washington’s policy toward Russia.

No positive turn in U.S.-Russian relations will be possible, the speakers concurred, until this “Washington Consensus” is broken. In the past 18 months, they said, due to the U.S. bombing of Iraq, the war in Kosovo, NATO expansion, and the looming decision on a U.S. National Missile Defense system, U.S. relations with Russia hit rock bottom. In the context of the NMD issue, Graham and Merry urged President Clinton to avoid any decision on deployment, until the next President is in office. “If they start pouring cement for the silos in Alaska next spring,” U.S.-Russian relations will be “train-wrecked,” Merry warned.—*Jeffrey Steinberg*

of exactly the capability to *mobilize the population*, which Russia now urgently requires.

At the same time, in interviews Gref shows himself well aware of the historically tested dirigistic methods, put forward in the Russian context by Glazyev and others, and emphasized also by LaRouche, for using the *productive credit generation* and directed investment by the state as the locomotive of economic recovery. Although Putin had asked him to take the standpoints of different economic schools into account, and to make a synthesis of the most positive ideas, Gref rejects dirigistic methods out of hand, on the grounds that they would require wide-reaching state intervention into the economy, which, he implicitly — but wrongly — insinuates, would mean a return to the Soviet “command system.” Gref states in his *Kommersant* interview:

“If you take the first administrative steps, starting with the emission of money [for productive credit generation], you will have to take the appropriate subsequent steps. This includes the fight against capital flight by absolutely similar methods. This provides for an obvious strengthening of the state’s positions in the private sector. . . . After that, investments in fixed assets are to begin, but they are not coming. Because you do not have a competitive environment, you do not have any incentives to start doing this. . . . After that you will have to protect your own market. You begin raising customs duties to somehow equalize the conditions of competition. In other words, a seemingly insignificant one step in this direction pulls with it a whole number of other measures which, in reality, lead you down a blind alley. And in reality everything does lead to this.

Q: Oof! And we began to fear that Putin’s economic program does not differ in any way from [Communist Party leader Gennadi] Zyuganov’s. So, that is a road down a blind alley. But where to and how must we go?

Gref: A second road is possible, that of a non-coercive stimulation of investments by creating a favorable climate and *eliminating the state’s excessive presence in the private sector.*”

Here Gref has simply avoided the question: What agency, if not the state, is to coordinate and finance the large-scale projects for modernization and development of infrastructure—including energy, transport, water, and communications, as well as education and health systems—which are crucial to the very survival of Russia in the coming period, not to speak of launching a serious economic revival? What right have Gref and others to reject the legitimate use of dirigistic, protectionist measures, of the sort the United States, Germany, France, Japan, and other industrial nations have employed at crucial junctures in their history, and without which Russia will soon cease to exist?

If Putin is serious about an economic mobilization to save Russia, which his own statements indicate he is, then he must soon realize, that the prescriptions of Russia’s newly recycled “liberal reformers” cannot possibly work. The sooner he does so, the better.

Mid-term turbulence shaking up Germany

by Rainer Apel

In a recent interview with the weekly magazine *Der Stern*, German Finance Minister Hans Eichel revealed that by October–November last year, the Social Democrat–Green coalition government of Chancellor Gerhard Schröder had “arrived at the very end.” Six major defeats for the Social Democrats (SPD) in regional elections during September and October were blamed on the devastating performance of the Schröder government. And, public unrest was rapidly broadening over the hostile takeover of Mannesmann by Britain’s Vodafone/Airtouch, as well as over the plan by the major banks, led by Deutsche Bank, to let Philipp Holzmann, the nation’s second-largest construction company, go bankrupt. In mid-November, Chancellor Schröder had to fly back from the international summit of government leaders in Florence, to intervene in the Holzmann crisis. There also were increasing frictions between the German and British governments over the usefulness of the free market, with the Germans showing opposition to British Prime Minister Tony Blair’s “Third Way” free-market model.

Even more important during those turbulent days was the fact that an alliance was building between the Social Democrats and the opposition Christian Democrats (CDU) against Anglo-American shareholder-value methods, in reaction to the rotten role the banks had played in the Holzmann bankruptcy. At that moment, there was a real perspective that Germany would be run by a Grand Coalition of the SPD and CDU.

But within the few weeks before Christmas, this alliance collapsed, because the Social Democratic leadership became obsessed with the idea that they could capitalize on the party-funding scandals striking the CDU, hoping that the Schröder government could make up for autumn’s drop in popularity. And, in the state elections in Schleswig-Holstein on Feb. 27, the SPD vote improved by more than 3%—which seemed to prove to Schröder’s entourage that its tactic of letting the CDU drown in a sea of scandals, was working.

CDU’s new leadership

CDU chairman Wolfgang Schäuble was forced to resign on Feb. 15, and this set off several weeks of fierce political infighting over his succession. But now, on the eve of the national CDU party convention in April, the nomination of the