Moscow readies a big shift in economic policy

by Chris White and Carol White

On Feb. 12, 1991, the Soviet trade union newspaper *Trud* published an interview with the new prime minister of the Soviet Union, Valentin Pavlov. Headlined, "Firsthand information: Let us be realistic," the interview is the first systematic policy statement by the man who has recently succeeded the lame-duck Nikolai Ryzhkov.

We reprint the interview here (see p. 7) because its content represents a certain departure from the ideologized claptrap which has characterized Soviet economic pronouncements under the successive phases of Gorbachov's "perestroika" reforms since 1985.

Principal features addressed in the interview include: 1) the assertion that Western financial interests have been running financial warfare against the Soviet Union with the intent of dismembering it; 2) arguments against both the "free market" shock policies associated with the earlier Shatalin plan, and now the Russian Republic's President Boris Yeltsin, and the sterile orthodoxies of communism, which demonstrate that, in effect, both are the same; 3) expression of a desire for the country to undertake a monetary and credit reform that will facilitate infrastructure and capital goods development.

The substance of the interview has not been referenced in Western coverage, only the charges against Western financial interests. Here the tack taken has been straightforward, yet it is not only intemperate, but actually clinically insane. Pavlov's charges have been dismissed around the world as "wild fantasies," "carnival delusions," "ridiculous." The U.S. State Department has taken the point for Western officialdom, with a drafted statement pried loose from reluctant spokesperson Margaret Tutwiler by this magazine's correspondent. "The charge is ridiculous. The story is a transparent effort by the Soviet authorities to blame foreigners for economic and financial difficulties that result primarily from the Soviet Union's own domestic policies. These allegations can only further damage prospects for attracting foreign investment into the U.S.S.R. It's counterproductive to stir up fears of foreigners and foreign banks."

Apart from the hysterical extremism of the tone, note that the statement is dismissed as domestic in its target. This same approach was taken by London's *Financial Times* and the *New York Times*, and is being fanned from behind the scenes by the Hudson Institute, the Institute for East Security Studies, and others.

One might well ask where these people have been for the last several months, watching CNN's coverage of the Persian Gulf war? That could explain their ignorance of what is going on elsewhere. Note that Pavlov does also say that the Western financial plot is somehow related to the developments in the Gulf. The policy outlined in the interview, the hysterics can be assured, is not primarily of domestic significance for the Soviet Union, nor is it completely unexpected. Only in the world of George Bush's psychotic minions, where reality is supposed to conform to the public relations department's slogan of the day, do such eruptions come as rude intrusions.

The interview constitutes a virtual declaration of war against the crowd in the West associated with Britain's Margaret Thatcher, Henry Kissinger, and his accomplices inside and outside the U.S. government, along with the Anti-Defamation League's bootlegging heir Edgar Bronfman and Dwayne Andreas of the Archer Daniels Midland soy and grain interests. These represent the core of what is being attacked in what could be the biggest shift in Soviet policy since Stalin's break with Nikolai Bukharin during the 1930s.

On the one hand the Soviets are definitely signaling their rejection of the hypothesis that there is only "one superpower," the Anglo-American, remaining in the world, as wishfully asserted by the Bush crowd. Not only have they placed themselves in the center of negotiations to end the war in the Gulf, but they are indicating that they absolutely reject any idea that they will submit their economy to control by the West.

The Yeltsin facet

The approach outlined has been in the making since at least Oct. 22 of last year, when KGB chief Vladimir Kryuchkov, accompanied by the ministers of justice and internal affairs, gave a press conference to denounce an increase in organized crime which threatened the political stability of the Soviet Union. He spoke of "well-established gangs" taking over important sections of the economy, and maintaining contact with gangs abroad. He took up the same theme in a shocking speech delivered to the Congress of Peoples' Deputies on Dec. 22, when "foreign spies working amongst us" were denounced, along with "attempts from abroad to exert overt and covert pressure on the Soviet Union and to impose doubtful ideas and plans to pull the country out of the difficult situation. All these efforts often screen a desire to strengthen not so much us, but their own position in our country." In this speech, the KGB chief spoke of the leakage of securities and currency abroad. Those who read *EIR* could have kept up with the developments as they occurred, and would not find themselves in the company of the unfortunate incompetents and lunatics over at the disastrous Bush administration.

Kryuchkov's speech was the start of a campaign. It was followed Dec. 26 by the issuance of a statement from the Soviet Union's state bank, Gosbank. "There have been numerous reports recently by various sources about the emergence of payment documents in rubles, issued by Soviet banks and enterprises for tens of billions of rubles. It is claimed that some of these commitments have been guaranteed by the U.S.S.R. State Bank. . . . The State Bank draws the attention of foreign banks, companies, and individuals who buy or accept as collateral such commitments, that due to their unawareness or credulity, they may suffer considerable financial losses. . . . Contracts signed have no legal force."

The next day, Dec. 27, the government newspaper *Izvestia* interviewed the chief of the Gosbank's currency directorate O. Mozhaiskov. "How Many Rubles Are Abroad?" was the title. Mozhaiskov reported that "payment checks, bills of exchange, and guaranteed letters of credit worth tens and hundreds of billions are circulating abroad, and that the U.S.S.R. Gosbank is not obligated to honor them." *Izvestia* asked: "Does that mean there is a threat that one fine day . . . the West will begin to buy up the country wholesale and retail?"

On Jan. 22, President Gorbachov signed a decree on the confiscation of 50 and 100 ruble notes, to be executed by the Gosbank and the KGB. Gosbank Chairman Viktor Geraschenko said the reform was to smash the black markets, to cut off reserves smuggled abroad, and to seal off channels of illegal circulation. Then on Jan. 25, P. Pearson of Dove Trading was detained at Moscow's international airport with documentation which tied the Russian Republic's Deputy Prime Minister Filshin into the plot. (Several ministers of Boris Yeltsin's Russian Republic government had been the authors of the Shatalin Plan, the most radical free market plan for the Soviet Union as a whole, which was rejected last fall.)

On Dec. 3, 1990, Yeltsin's Russian government had issued a decree on "Using of Rubles by Foreign Firms on the Territory of the Russian Republic," which provided that imported equipment and goods could be paid for "in rubles, at special exchange rates, which are specifically established." On Dec. 13, Filshin had outlined a plan to create "special incentives for foreign firms." He told TASS: "Western firms will be allowed to sell their products for rubles in Russia, and invest the money in various industries, including key industries. . . . Massive foreign investment is expected in the oil, gas, timber, and metal industries, to say nothing of the consumer sector."

This does indeed seem to be what Pavlov charges it is. Here is Yeltsin's government offering to sell off the resources of the Russian Republic cheap, and empowering itself to do just that.

On Feb. 12, General Grushko, newly appointed second in command of the KGB, warned of "an intensification of Western espionage against the Soviet Union," and about "CIA penetration of technological developments in Soviet military industry." The next day, on Feb. 13, Gennady Filshin announced that he would be resigning as deputy prime minister of the Russian Republic.

The Kissinger Associates facet

Then we get the second line of defense, after the labels "ridiculous," "wild fantasies," and so forth. This has two parts. Both come from the Western crowd, who have promoted the free enterprise, privatization policy which is now being taken apart. Under part one, it is said, "Russians are too stupid to understand banking and finance anyway." Under part two, "and in any case no Western bank would be crazy enough to get involved, there's no money to be made in it, where would they get the rubles from, they couldn't get them out of the Soviet Union."

The policy which Pavlov is attacking was embodied in an act passed through the U.S. Congress in November 1989, entitled the "Support Eastern European Democracy" act. Under the SEED act, "enterprise funds" are to be created to establish Hong Kong-style "free enterprise zones," and to promote "privatization." Former Kissinger Associates officer Lawrence Eagleburger was appointed the administration official responsible under the act. R. Mark Palmer, a scion of the Hooker chemical company and the Rockefellers, left his position as U.S. ambassador to Hungary to set up the Central European Development Corporation in Budapest, Hungary. Palmer was an aide to Kissinger during an earlier phase of his career. The corporation functioned as an extension of Eagleburger's responsibilities under the SEED act.

The chairman of the corporation is the former U.S. ambassador to Austria, Ronald Lauder, of the Estée Lauder cosmetics fortune. The vice chairman is Andrew Sarlos, a Toronto-based investment manager who fled Hungary in 1956. Big money for the project comes from Melvin Simon of Melvin and Associates, one of the world's largest shopping mall development firms; and, Albert Reichman of the Hungarian family that founded Toronto's $25 billion Olympia and York Development, Ltd.—allegedly a front for the Bronfman family's old bootlegging and prostitution fortune. The fund overlaps the Jardine Matheson-owned Bear Sterns investment bank, and the World Bank.

"In the 1970s the U.S. dumped money into Eastern Europe. We got very little in return. The President will not let that happen again. Now, our basic philosophic approach is to encourage private investment, but to have the U.S. government concentrate upon teaching Eastern European nations accounting and banking. It's a lot cheaper that way." That was what Eagleburger told the House Budget Committee during hearings on the State Department's budget last year. Palmer's CEDC was the "private investment" favored. Palmer confirmed in an interview in March 1990, that President George Bush and Secretary of State James Baker back the CEDC-type of initiative toward Eastern Europe, since they are on record favoring "privatization of the effort to develop Eastern Europe."

This, it seems, is what the Russians have determined to destroy.

LaRouche scores Bush bungling

The interview by Pavlov is of exceptional significance not only for its political implications, but because Pavlov hints at a program for industrial investment which could rescue the bankrupt Soviet economy. His insistence on basic industry is a criticism not just of the perestroika era, but of the thesis and policy advanced already under the last Brezhnev years, that the time of a preferential growth rate for "Group A," the Soviet term for producer goods, had passed. Pavlov now says this is wrong in theory and practice.

Pavlov's "third way" proposals, for neither a return to communism nor an IMF-supervised bankers dictatorship, would offer a window of opportunity for the kind of economic integration of the Soviet Union with Europe, which was envisaged by Lyndon LaRouche in his proposal for an economic development triangle, which would be centered in Germany and would emphasize massive, high-technology development of infrastructure to connect the U.S.S.R. and the newly liberated nations of Eastern Europe to the rest of continental Europe. This is the kind of thinking Lyndon LaRouche was addressing in his prophetic October 1988 speech at the Berlin Kempinski Bristol Hotel, where he first launched his proposal for "food for peace" toward the Soviets.

The trade deals presently being negotiated by the Germans with Moscow, are a hopeful sign in this direction. On Feb. 14, LaRouche made the following remarks, regarding the reemergence of what is now being dubbed by *New York Times* columnist William Safire as "Cold War II." Attributing the renewed drift toward a U.S.-Soviet military confrontation to bungling by Bush and Thatcher, LaRouche said then:

"The reason this Cold War II has come into place, is because Mr. Bush flubbed it. Mr. Bush and Mrs. Thatcher flubbed it. A golden opportunity erupted at the end of 1989, particularly with the collapse of the Berlin Wall. This gave us the opportunity, to open up new lines of economic cooperation with Eastern Europe and with the Soviet Union itself, which would bring in large-scale investment in basic economic infrastructure, which would be financed by the state credit of the areas in which these improvements were made. This would mean improvements in basic fresh water systems, improvements in transportation, with emphasis on high-speed rail and also magnetic levitation rail. This would mean increases rapidly in the generation and distribution of power. This would mean the rapid development, in addition to infrastructure, of high-technology machine tool and repair shops and construction firms, that sort of thing, which would provide the basis for a rapid growth in high-tech manufacturing and rapid improvements in agriculture.

"We had the opportunity; but instead, Mrs. Thatcher and Mr. Bush decided to go with this IMF conditionalities package, like the Polish model, and to go with what they call free trade—the same kind of free trade policies which are presently driving Britain and the United States into bankruptcy, and dragging most of the world down into a depression as a result.

"When the Bush administration, together with the Thatcherites in Britain, decided to shove IMF conditionalities down upon the Soviets, the Soviets flipped, and went into the same kind of nationalistic reaction—if you can call it nationalism—which they showed when Stalin booted out Bukharin in the 1920s. It could have been avoided, if the British and George Bush had not been such stupid fools.

"The only chance now to get out of the mess we're heading into is to call off this war in the Middle East and the Gulf, move for a cease-fire, and proceed with the negotiations that George refused to consider beforehand, the negotiations, which if they had been held, would have avoided this war in the first place.

"Now, at the same time as stopping the war to introduce stability on that flank, proceed with the kind of proposal and policy on economic expansion and development in Eastern Europe, which I proposed at the end of 1989 and early 1990. If we do that, we can avoid a spreading war which is headed in the direction of, potentially, World War III, and quite seriously, folks, we can create the opportunity to reverse much of the damage which has been done by George Bush's bungling over the past year."