Russian economic debate needs LaRouche program

by Denise Henderson

On Dec. 25, the resignation of former Soviet President Mikhail Gorbachov *de jure* ended the 70-year existence of the Soviet Union which had been *de facto* declared extinct by the agreements signed in Minsk, Belarus, earlier in the month. Now that Gorbachov is gone, issues of economic policy have come to the fore, with pressure intensifying from the International Monetary Fund (IMF) and Harvard Prof. Jeffrey Sachs for complete adherence to free-market economics.

Although western media harp on the fears over "who controls the nuclear button," Lyndon LaRouche, a Democratic presidential candidate, stresses that "the only likely source of a nuclear crisis . . . aside from a special situation in the Transcaucasus region, is the danger that Boris Yeltsin, the President of the Russian Federation, might follow, to some degree or other, the pathway toward bankruptcy which the Polish government pursued for a while, up until most recently, at the instruction of Harvard's lunatic professor, Jeffrey Sachs." Should Yeltsin choose such a course, LaRouche warned, "the result in Russia would be chaos. In such a case, the overthrow of Yeltsin, or somebody, by a dictatorship and the restoration of a form of what is called totalitarianism would probably occur. In that case, we have a strategic threat."

Price chaos

Even before price controls were lifted on Jan. 2, several violent incidents resulted in deaths: In Kemerovo, in Siberia, two shoppers were killed on a bread line. On Jan. 2, the Moscow police reportedly put 1,000 extra policemen on the streets for crowd control on food lines.

So far, Yeltsin has refused to learn the lesson of Poland, where Sachs's policies have left hundreds of thousands unemployed, and the elderly and young are at near-starvation levels. In his year-end address to the Russian people, Yeltsin praised the "13 leading market specialists" who have been invited "to Russia for one year from several countries for consultations on the ongoing reforms. They have already begun to work. I have met them twice and it should be said that even the first advice is of great use for rectifying some of our decisions."

Earlier news reports identified these "market specialists" as Sachs and his associates, who told Yeltsin that "the most painful measure and the most unpopular measure," the liberalization of prices Jan. 2, must be the first step. Yeltsin told Russians in his Dec. 29 address, "We have been looking for an acceptable variant of the reform during two months, and we have understood that there was no alternative."

Thus, on Jan. 2, prices on most consumer items shot up. Although the Russian government has issued a decree that sets a ceiling for prices of certain basic commodities, prices for coal, oil and gas, electricity, medicine, milk, sugar, vodka, and bread have started to rise 200-300%. The official inflation rate in the republic is more than 100%.

The Republic of Ukraine tried to persuade Yeltsin and his advisers not to lift the lid on prices, and announced its own plans to issue coupons as a second form of currency inside Ukraine, pending adoption of its own currency. The Ukrainians fear that the Russian move will flood Ukraine with Russian consumers seeking cheaper goods. At a Christmas Day meeting of the prime ministers of the new Community member republics, Ukraine pressured Yeltsin adviser Yegor Gaidar, a cult follower of Sachs's "shock therapy," to delay the price reform until businesses had been privatized. Since Gaidar insisted, Ukraine had no choice but to go along.

"I do understand the position of the Russian Federation, but they are turning us into part of their economic structure," said a Ukrainian spokesman.

On Dec. 30, the Minsk summit of the leaders of the Community of Independent States (C.I.S.) continued the discussions, but failed to agree again on a coordinated price liberalization scheme. Consequently, Ukraine and Belarus both announced that they would proceed with price liberalization programs on Jan. 2 and Jan. 3, respectively. The republics only reached partial agreement over a military structure for the new C.I.S. and the constituent republics. The 11 leaders agreed to a unified command for strategic nuclear forces, but did not agree to the formula for overall conventional forces (army, navy, etc.) desired by Yeltsin and his military advisers. Ukraine, Azerbaidzhan, and Moldova balked at the idea of a "unified status for all armed forces."

Yeltsin faces resistance in his own ranks, from Vice President Aleksandr Rutksoy, and from the Democratic Union. Rutskoy became more outspoken as the price liberalization approached. While stressing that he is not trying to create an opposition party, he warned, "We shall pay quite a price" for so-called conversion of the defense industry. "The Russian government is wrong when it thinks it will not be made responsible for the country's selling out and disintegration. It is dangerous to try people's patience endlessly."

Rutskoy challenged the free-market reformers around Yeltsin to debate. "I want to ask [Gaidar] questions, to debate things with him. Is it possible to free prices now, at a time when the economy has been thrown out of gear? Its stability is not being achieved through the freeing of prices. Ninety-eight percent of enterprises in our country are state-owned. What kind of market is this? . . . We have more than 600 exchanges, more than 1,500 commercial banks, but there is no ready money. Money is working for the sake of money. . . . Funds are not being invested in developing production. . . . Enterprise in production has been stalled."

Clearly, the opportunity exists for the debate for which Rutskoy called for, on the level of long-term policy which could create the infrastructural basis for Russia to become even more productive than it was in the late 1890s, when its industrial and agricultural output were higher than Britain's and on a par with Germany's. Lyndon LaRouche's program for high-technology infrastructural and industrial development has emerged in the midst of the debate over economic policy in Russia. On the eve of the Jan. 2 price "reform," the newspaper of Moscow's Democratic Union Party reprinted LaRouche's proposals at length, describing him as an "American dissident" and political prisoner (see article, page 52).

Currency reform first

In a recent strategic assessment, LaRouche observed that "most of the money and assets are lodged in the black market. One might say, that for 70 years, the Communists said that capitalism is theft; then one day, Gorbachov said, 'We're all going to become capitalists,' and therefore all the bureaucrats began stealing and engaging in criminal activities.

"The organized criminals seemed to have a heyday in the former Soviet Union; there are goods, but they won't sell them because they're waiting for a higher price. The best way to cure that in a state is not to bend over and legalize organized crime the way some people at Harvard and in the State Department propose; the best way is to have a currency reform. That is, all the currency comes in and gets exchanged for a new currency; and someone has to say, 'Well, did you get this currency legally?' " He predicts, "A lot of people might burn old rubles, just as a way of avoiding being indicted for criminal practices."

The Russians and Ukrainians in particular should each proceed, with some consultation, to call in the ruble, and to issue the new currency, he advised. "Ukraine is about to issue its own new currency in the foreseeable future in any case, and perhaps these measures could be coordinated." It would have to be not a gold-backed ruble or a gold-backed Ukrainian currency, but a gold-reserve-backed currency, "like that arrangement we had under Bretton Woods prior to 1967-68, and also 1931," the candidate stated. Then, "the Russians and Ukrainians and the community as a whole would have to throw up some tariff and trade barriers to back up the stability of the currency."

The ruble would be based, not on an exchange rate ("lunacy"), but on purchasing power. Two "baskets" of commodities in general circulation and production within the former Soviet Union would be required: a basket of consumer commodities, and a basket of producer commodities—or several baskets of producer commodities. "You set these baskets as a measure of purchasing power, and peg a value of the ruble to that price, and peg that to a gold price," he suggested.

"The United States and other nations, if they wanted to be sensible, would agree to let the price of gold float up to where it belongs, on the basis of using gold as a monetary reserve in an international gold reserve system." This would yield a gold reserve price of over $800/oz. relative to the existing dollar." Thus, "if we peg currencies to baskets of commodities in general use within each country, then we can have cooperative regulation of trade internationally, which will ensure price stability of the type we saw, perhaps, prior to 1967-71 events under the Bretton Woods system."

This requires some re-thinking about international trade. The GATT proposal in the Uruguay Round is already doomed. The Congress can be induced to give up its "Super-301" and similar kinds of insane trade-war packages, and commit to sensible international trade agreements, aimed at stabilizing prices of currencies in order to keep interest rates down and to keep long-term international investment and trade agreements up. "Under those circumstances, we can assist in stabilizing the world behind the former so-called Iron Curtain. And if the Russians and Ukrainians agree, I'm sure the other republics will tend to go along."