

Stock markets dive

The stock market panic in London began on April 3 when the *Financial Times* index dropped by 56 points in the first half-hour of trading, after polls were released giving Labour a substantial lead in British elections April 9. The stock index has fallen by 166 points since Budget Day, and analysts expected another 100-point drop if the Tories should fail to win.

In addition, the key three-month interbank lending rate shot up sharply, and if the money markets continue to be unstable over the next days, the big U.K. banks will come under increasing pressure to raise their base rates. The City of London "has finally begun facing up to the possibility of the Labour Party winning an overall majority at the polls next week," said the *London Times*, and sees the slump as a "foretaste of things to come."

Tokyo stocks collapsed below 17,000 on the Nikkei index April 8, down from the level of one year ago of 27,000, despite the early April government emergency economic package and a hefty 0.75% cut in the Bank of Japan rate. Bank stock drops led the decline, the worst fall taken by Mitsui Trust, heavily engaged in restructuring troubled real estate companies. Mitsubishi Bank and Fuji Bank fell sharply. Moody's has downgraded four Japanese top banks.

British traders in Tokyo had a field day talking down the Japanese market. Barings Bank has forecast the Nikkei could break below 15,000. "It's like trying to catch a knife," said Simon Smithson, head of research at Britain's Kleinwort Benson brokerage in Tokyo. "The market won't be able to rebound before banking stocks stop sliding," he said. "What's happening to Japanese bank stocks is structural—it's cross-share selling, *tokkin* money trusts, and fund trusts trying to get out of the bank stock market, and foreigners . . . thinking, 'we've got to get out of here.'"

The cross-share selling issue cuts to the heart of Japan's *keiretsu* industrial combine system. Industrial companies like Mitsubishi Steel are being forced to dump shares in their traditional banks such as Mitsubishi Bank. Analysts said investors were spooked by banks' bad loans, real estate exposure, and the need to meet strict capital adequacy ratios by end-March 1993.

The news from Japan hit markets across the Far East. In Hong Kong, shares extended sharp losses as investors eyed Tokyo and worried about New York. In Sydney, news from Tokyo sent panic through the stock market which closed at a seven-month low.

Resistance builds shock therapy in

by Denise Henderson

Russia's 6th Congress of People's Deputies opened April 7 amid an ongoing debate over the proposed \$24 billion aid package being offered by the International Monetary Fund (IMF) to Russia. On April 8, however, the debate appeared to be over, as Russian President Boris Yeltsin claimed that thanks to the IMF reforms, as implemented by Harvard's adviser to Yeltsin, Jeffrey Sachs, and his Russian crony Yegor Gaidar, Russia was experiencing an economic turnaround.

Flagrantly ignoring reality, Yeltsin claimed that the Russian economic situation had improved, and defended the decision taken at the 5th Congress in November 1991 to press ahead with reforms. "We have got a clear understanding of the course of transformations," he said. "For the first time in many years we managed to make the economy speak the language of finance. The monetary policy becomes, although slowly, the major factor and incentive of economic activity. We have renounced senseless military spending. . . . Positive changes have started to take place in the economic and political spheres."

Yeltsin was forced to give his speech after the Congress voted down a proposal that Gaidar, who has been removed from his finance post but who remains an adviser to Yeltsin, report on the state of the economy. Although the speech was at least an hour long, Yeltsin only mentioned productive activity in the context of conversion of the military-industrial enterprises, and did not mention badly needed infrastructure at all.

Yeltsin called on the Congress not "to play politics, to fight for an illusionary primacy. We have a common cause that we are responsible to Russia, to the international community, to our own people. It is highly irresponsible to stir up disagreements. . . . But I am sure that the majority of the population understands that it is necessary to live through this period of falling living standards in order to prevent a catastrophe, to start moving away from this poverty."

Gaidar also spoke and ignored economic reality, claiming that there has been a turnaround in the number of businesses engaged in production, in exports and imports, and in agriculture. Gaidar laughably compared the proposed \$24 billion IMF aid package to the Marshall Plan, whose success, he claimed, Russia could repeat today.

But, as Russian speaker of the Parliament Ruslan Khas-

to IMF Russia

bulatov warned in early April, the economic situation is so bad that Russia is running out of time—and Yeltsin and the West know it. The problem is, however, that all parties continue to cling stubbornly to macro-economic programs (free trade, market economy policies) designed, as many Russian critics have said, in theoretical conditions not applicable to Russia or the other republics of the Community of Independent States (CIS).

IMF demands 'amoral, futile, dangerous'

The growing discontent among leading circles in Russia with the government's acquiescence to the genocidal policies of the IMF surfaced in March. The most scathing indictment of the policy was given by St. Petersburg Mayor Anatoly Sobchak, in an interview with the Italian daily *La Repubblica* on March 27. Sobchak said, "If the IMF asks the Russian government to carry out a reform that entails millions of starvation victims among our country's citizens, then I say that such a request is not only amoral but futile and dangerous. It paves the way to another totalitarian government, more aggressive than before.

"Even a blind man can see that [IMF] demands . . . are entirely unrealistic and entirely impossible, now, in our country. . . . To take them as the basis of our policy will lead . . . not to the stabilization of the economy, but to its demise. I have already explained this to . . . Jeffrey Sachs, and I intend to discuss it with IMF leaders. Russia is not a Third World country . . . nor is it Poland or Hungary. We have other problems and a scientific and industrial potential equaled only by that of the United States. . . . Thanks to the huge natural resources that we enjoy, we can even tackle the crisis without imposing spreading unemployment on the country. But to use our resources better we must move in another, fourth dimension. This is an unknown dimension, in which we already find ourselves. These things must be said, must be explained to the IMF leaders. . . . Nobody can demand from us political commitments that cost the lives of millions of people. If they do demand this, they should be sent where they deserve."

Sobchak said that he hadn't publicly protested Russian economic policy sooner because he thought that "the Russian government is composed of intelligent and capable men. . . . This makes all the more unpardonable the superficiality and

incredible irresponsibility with which they act, as though market laws could conquer Russia overnight, by magic. Their platform is pure theory, entirely divorced from reality." Sobchak asked: "What is the point of this reform, and whom does it serve?"

Sobchak is part of a vocal minority among Russian leaders which is asking the right questions. Unfortunately, Sobchak's clearheadedness has yet to be reflected in the policy programs coming out of either the Russian parliament or Yeltsin's Russian White House.

In late February, the Russian government released a "Memorandum on Economic Policy" which made clear that the City of London/IMF policy planners were firmly at the helm of the Russian government through Sachs and Russian Finance Minister Gaidar. That memorandum led to a number of attacks on the program in the Russian press.

IMF defenders cite 'Mexico model'

Georgi Arbatov of the U.S.A.-Canada Institute replied on March 13 under the "Opinion" column of *Nezavisimaya Gazeta*. Arbatov took a "soft-cop" approach, claiming to agree with critics while attempting to undermine their arguments. Arbatov argued that the problem with the Russian economic reforms was that they had not gone far enough fast enough in turning Russia into a Chinese-style slave-labor operation, and called for the "free trade zone" approach of China. He cited Mexico as a country which "successfully" contested the IMF and won.

Arbatov's idea of "contesting" the IMF and winning, was explained: In Mexico, "the main example was placed not only on liberalizing prices, but on opening the country to foreign goods and capital. . . . And emphasis was also placed on privatizing state property." In other words, Russia should develop the slave-labor factory system known in Mexico as *maquiladoras*, which *EIR* has documented to be an "Auschwitz below the border," and sell off its state enterprises—presumably including infrastructural enterprises such as electricity generation, nuclear power plants, hydroelectric plants, etc., which is what has been proposed for Mexico. For Arbatov and his western cronies, until Russia's industrial base is completely destroyed, they will not be satisfied.

Between Sobchak, who argues that Russia is in an unknown, "fourth dimension," and the rabid free traders, there is a group of economists who would return Russia to the status quo—a physical impossibility, unless the issue of building and replacing infrastructure is included in the program.

Speaker of the Parliament Khasbulatov told the parliament on April 4 that IMF loans are not the answer to Russian economic ills and that the country should rely on its own resources to get back on its feet. "There are no sources available in the West for large-scale financing of Russia," he told journalists. Taking a jibe at the IMF, he said, "And of the money we think we will get, 40% will have to be returned

anyway." He added, "If American policy is constructed solely on Gaidar, then I feel sorry for American policy, and for Russian policy even more so."

Khasbulatov's proposed economic policy, which appeared in *Nezavisimaya Gazeta* in early April, focused on the destruction of Russian industry and the fact that land reform was entirely stalled, which will affect the spring planting. He ridiculed the idea of a balanced budget, warning that what must be addressed are "the 'bottlenecks' of the economy; their identification is an important and complicated task for the government which should be resolved with help from the Russian Federation's Supreme Soviet."

Economy determines security

Khasbulatov warned, "Today the threat of economic collapse is more manifest than the military threat. The prospect of an irreversible technological backwardness [threatens] . . . vitally important national interests.

"It should be remembered that there is no . . . absolute 'non-military' security. For it is the economic potential that determines the possible level of military might. . . . A super high level of armaments is causing major structural anomalies that are wreaking havoc with the national economy. Now that military expenditures have been slashed, the problems of the militarized economy are becoming increasingly apparent. The result is the emergence of a threat to the scientific and technological potential of the defense industry, the collapse of its production structure, brain drain, and sharp changes in the social climate in many cities with an industrial structure dominated by the enterprises of the military-industrial complex."

But Khasbulatov failed to address the most vital need of Russia—a major program to upgrade its infrastructure, with special attention on high-speed rail transport to facilitate agricultural needs and distribution of industrial production. Russia cannot simply return to the command economy of the 1950s, '60s, and '70s. Economist Lyndon LaRouche's "Productive Triangle" program must be assimilated by those like Khasbulatov who have an understanding of economy based on physical principles.

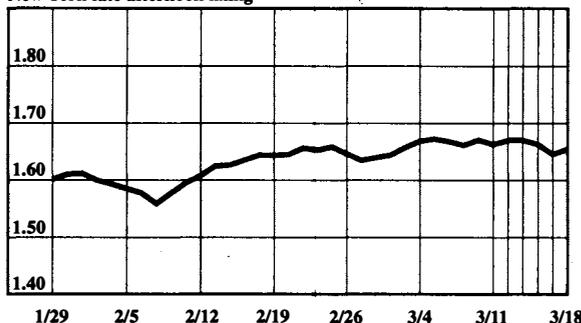
Although the 6th Congress may rubber-stamp Yeltsin's programs, indications are that if the reforms continue, the military may step in. In an interview on April 3, Gen. Nikolai Stolyarov of the Joint Armed Forces Committee of the CIS was asked what would "desperation of millions of civilians and the sufferings of thousands of military men" lead to?

Stolyarov replied, "It would be quite wrong to believe that democracy is invincible and that totalitarianism has collapsed forever." He added, "I am sure that no political provocateur can involve the Armed Forces into an adventure. But this does not mean that the military can be forced to withstand more and more trials. It is a political betrayal of the military to view them as having unending patience. This is also a sin all of us share."

Currency Rates

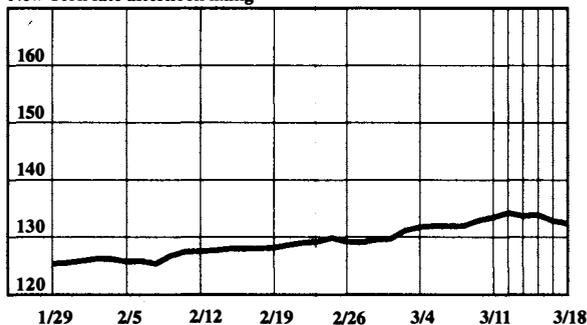
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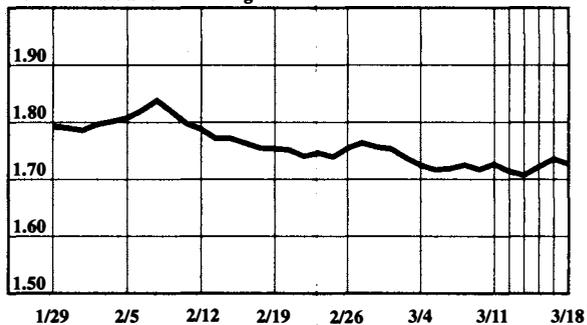
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The British pound in dollars

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The dollar in Swiss francs

New York late afternoon fixing

