

For the economic reconstruction of the new, former Soviet republics

by Jonathan Tennenbaum

The following was prepared to serve as a guideline for the economic recovery of the new republics formed from the former Soviet Union. Dr. Jonathan Tennenbaum, who is the director of the Fusion Energy Forum in Germany, analyzes the reasons behind, and the solutions to, the current crisis.

It has been rightly pointed out from different sides that large-scale economic help for the republics of the Soviet Union could only have a permanent, positive effect if this help were tied to a profound reform of the structure of the economy. In its form hitherto, the Soviet economy has functioned rather like a "black hole," which swallowed unbelievable masses of raw materials as it looted people's wealth, which disappeared without a trace. If one recognizes the colossal inefficiency of the Soviet economy and their enormous military expenditures, the thought easily comes to mind that pumping in additional aid would be completely useless, and that it is entirely a question of structural and organizational changes. Similar thoughts are often misused for legitimizing the austerity policy of the International Monetary Fund (IMF), in that the assertion is made that first one must learn to deal sparingly with financial and material resources before economic growth becomes possible. Yet, this argument contains a fundamental, dangerous mistake.

Massive investment is necessary

It is true that the economy of the former Soviet Union might be quite capable of further devouring huge masses of economic aid without effecting any noticeable improvement in the economy. Only the converse is also wrong, which above all the Germans have recognized from the example of the former German Democratic Republic: A process of profound structural transformation in the positive sense is not possible without enormous appropriate investment.

The problem can be clarified by means of an apparent paradox: In the Soviet economy, the center of gravity lies in the production of capital goods, foremost being the production of machine tools and great masses of steel, cement, electricity, etc. If you look at production statistics, you would think the capital-intensity of the Soviet Union to be very

high. Yet it is in fact catastrophically low. The solution of this paradox lies above all in the fact that "capital intensity" is not a scalar magnitude, and thus not a pure quantity, but obeys qualitative "geometric" laws.

The role of the 'Mittelstand'

Decisive in this is the role of a strong productive *Mittelstand*, those small and medium-sized firms which play a key role in technological advancement and modernization. This in Russia itself never had a chance. Only with the agrarian reform proposed at the beginning of the century by Count Sergei Witte, and later carried out in a more circumscribed manner by Stolypin, was there even the possibility that there could arise a broad agricultural *Mittelstand*, out of which the industrial *Mittelstand* might have formed itself "organically."

This development, however, was nipped in the bud by the Bolsheviks, and indeed quite consciously so. Lenin had justly said that the rise of a broad layer of middle class entrepreneurs would signify a deadly danger to communist rule. What the Bolsheviks implemented in the name of socialism within the Soviet empire, was a *neo-feudal* economic order. The fact that the Soviet Union has a massive heavy industry and an advanced military industry, does not change the fundamental social structure. The unparalleled inefficiency and irrationality of the Soviet economy follows "organically" from its underlying feudal structure.

Given the neo-feudal economic system of the former Soviet Union, the approach used by Freiherr vom Stein in the Prussian reforms is in essence also valid here. Above all, private initiative, the productive power of the individual, must be freed from feudal-bureaucratic chains and deliberately favored by the newly formed state. As vom Stein recognized at the time, a substantial, across-the-board increase of domestic productivity can only be attained through the formation of a broad *Mittelstand*, which at the same time forms the indispensable foundation for a free political system. Yet such a *Mittelstand* does not arise merely through liberalization or administrative measures, but rather needs a corresponding *material basis*. And it is precisely for this



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“The Economic Renaissance of Ukraine” in Kiev on June 14-16 was the theme of a conference sponsored by the Rukh democratic movement. Invited Schiller Institute speakers (not shown here) faced down the “Harvard mafia” with the sound economic principles elaborated by Tennenbaum in the article here.

reason that the austerity policies of Harvard’s Prof. Jeffrey Sachs and his Polish-model “shock therapy” lead into such a dangerous blind alley.

Agriculture in Germany and the Soviet Union

This becomes clear when one considers the difference between the structure of agriculture in western Germany and virtually all regions of the Soviet Union. Nominally, Soviet agriculture would appear to be highly mechanized. Yet, if we compare the equipment of a typical German family farm with a Soviet collective farm relative to the area under cultivation as well as the use of manpower, right away we see a world of difference. What strikes you with the German family farm is the unusual *abundance* of high-quality equipment and tools of a high level of technology, the multitude of products from the chemical and pharmaceutical industries, and above all the immediate *access* to this rich palette of products, which are either attainable off-the-shelf from specialized firms or can be delivered within a short time. That is of course also true for replacement parts, which are in very short supply in the Soviet Union.

The provision of the German agricultural sector with such a strongly differentiated “basket of goods”—without which their high productivity were impossible—is linked to two factors, which in the former Soviet Union are virtually completely lacking:

First, in Germany there exist, besides a large transportation and chemical industry, an enormous number of medium-sized concerns, which provide the agricultural sector with the broadest spectrum of products. Furthermore, large agricultural machines are repaired by medium-sized concerns (because of the current crisis, much more so in the past than today).

Second, an outstanding logistics capability provides for the uninterrupted flow of capital goods to the individual agricultural concerns, of agricultural products to the processor, and finally to the consumer. In turn, well-functioning logistics can only be based on a comprehensive transportation infrastructure.

This example underscores the fact, that the urgently necessary buildup of a broad productive *Mittelstand* in the regions of the former Soviet Union is indissolubly linked to a rapid increase of the *effective* capital intensity of the economy. The one cannot occur without the other.

Correspondingly, we find on the list of priorities for competent economic reform, the building up of a *well-provided market for the most necessary means of production*—such as building materials, raw materials, tools, and simple machine tools. Free access to capital goods is more important than the availability of consumer goods, for only in this way can *Mittelstand* agriculture and consumer-goods industries, which can richly provide for the population, even come into being. More important than supermarkets and department stores are the wholesalers of building materials and machines, specialized firms for industry and agriculture, etc. Everything which up until now the small and medium-sized producer had to “organize” to obtain at astronomical prices on the black market, should now be obtainable through a well-ordered market.

The disappearance of labor power

The “socialist” economic disaster was maintained by entire armies of repairmen, who had to fritter their time away by keeping old and defective machines running “forever.” Provided with sufficient raw materials and tools, these people might in the shortest time possible build up an immense number of productive enterprises, through which the economy should undergo rapid growth in productivity.

Hence, it were pure madness to allow existing heavy industry, which must provide for the *Mittelstand* producer, to languish. It is just as senseless to shut down machine tool industries such as the Ursus Works in Poland, while, for example, large quantities of agricultural machinery—above all, such as would be suitable for family enterprises—are in demand.

A full program of building infrastructure is decisive for the rapid development of a *Mittelstand* and for the economy in general. Although it *does* provide the basis for the so-

called “market economy,” an efficient, dense transportation infrastructure *does not* come into existence by the “free play of market forces.” For that, only the state can and must take responsibility, in which private enterprise, such as the construction industry, which works directly for or on concession from the state, generally plays a decisive role.

Infrastructure has priority

Apart from linking up with the major transportation networks—including that of the “Productive Triangle,” a proposal by Lyndon LaRouche for a Europe-sparked worldwide economic recovery, in central Europe in an area encompassing Paris, Berlin, and Vienna—in most of the regions of the former Soviet Union there is an urgent necessity to improve the miserable condition of the highways and regional infrastructure in general. And connected to that, an improvement in the provision of foodstuffs.

It were a complete illusion to expect that a task covering such a huge geographical area might be able to be taken up by foreign concerns; what *can* come from abroad are, above all, highly productive capital goods. On the other hand, there should be discussion of to what degree the military can be transformed into a corps of engineers, who would have the improvement of infrastructure as their primary task. The equipment of such an engineering corps might come in part from domestic machine tool production including converted defense industries, from the import of the most modern construction machinery, and other technologies.

Also available for building up regional infrastructure would be that manpower which was in the past chronically under-utilized, for example in the agricultural collectives. This process will cause regional construction firms to spring up, the which will be of decisive significance for future development. They will absorb the labor freed up by the gradual dissolution of the socialist collective and, in the process, lay the basis for new, modern family—*Mittelstand*—concerns, which primarily come into existence locally or regionally.

In order to introduce such development and foster it, classical means of developing a national economy, in the sense of the policies championed by Alexander Hamilton, Friedrich List, Matthew Carey, Henry Carey, and Lyndon LaRouche, must be employed: state investment, tariff, credit, and tax policies.

Given the colossal dimensions of the tasks to be confronted, the economic aid of the western countries must be aimed at generating the greatest possible effect with the given means, and simultaneously upgrading the productive capacity of western industries through the policy of the “Productive Triangle.” The greatest “leverage” will be achieved when the domain of the former Soviet Union will be “coupled” infrastructurally to the European “Productive Triangle,” while at the same time concentrating logistical and technical aid upon improving domestic infrastructure and the modernizing the capital goods producing industry. Added to that

must be certain specific direct assistance to agriculture and the consumer goods industry, and finally—besides necessary foodstuffs—the delivery of consumer goods themselves.

After Socialism

Statement of principles for recovery of the East

1) For obvious reasons, we must first get rid of the notion which would represent mere “liberalization” as the core of a healthy re-direction of the Soviet economy.

2) There is no country on Earth that has achieved, on the basis of the ideology of the liberal “free market economy,” an enduring prosperity; rather, everywhere it has been preponderant, this ideology has caused the impoverishment of the greater part of the population, and dangerous crises. This statement has been historically so thoroughly and repeatedly proven, that any doubt about it can only be based upon the refusal to analyze the unfolding of history.

3) A domestic economy can only be developed if a sovereign state takes responsibility for this. The state must crank up economic development by means of appropriate measures and guide it in a favorable direction; it must foster the free unfolding of productive activity, and protect against the harmful influence of speculation and other misuses of the market and the monetary system.

4) The revelations of the “Art B” scandal in Poland provide us with a terrifying example of the misuses which are promoted by a blind liberalization in the sense of Jeffrey Sachs’s policies. A domestic economy which is not able to suppress such excrescences must inexorably go under.

5) A certain measure of dirigism is thus without question necessary, although the “dirigistic” means—such as tariffs, regulations, tax credits, and state subsidies, creation of credit, and investments, etc.—are neither good nor bad in themselves. It all depends upon the underlying principles for which such political-economic tools are employed. On the basis of a competent knowledge of “physical economy,” such as defined by Gottfried Leibniz, Hamilton, Carey, List, and today LaRouche, the employment of these means would be overall rich in consequence, otherwise not.

6) Therefore, we must look at a domestic economy as a garden, in which the state functions as gardener. The plants—hence the productive activity of the free entrepreneur

and employees—grow on their own; this growth does not allow itself to be prescribed (in the sense of the so-called planned economies) in detail, nor be bound by the restrictions of a systems-analysis strait jacket. On the other hand, the state as economic gardener must make sure to create the best possible conditions for healthy growth. Just as a normal gardener must concern himself with bringing water, fertilizer, and waging the battle against pests and weeds, so the state must be concerned with appropriate infrastructure, education, and health care for the citizens, with the appropriate fostering of science, and many other cares. Also, a part of this must be to protect the free entrepreneur against the “predatory animals” of the market place, against the inordinate influence of strong private interests, both domestic and foreign.

7) In this connection, a “well-ordered market”—if we use this term in the sense of having free access to goods and services, and in the sense of a measuring rod to make a useful (although not absolute) distinction between the individual entrepreneur and the consumer—plays an indispensable role. Yet we must not deify the market nor overstate its domestic significance. In the final analysis, the production and consumption of goods are immeasurably more important than trade in the same. Nor is competition in any way the primary wellspring of technological progress. More important is the development and diffusion of technology, which stems from scientific progress.

8) Everything we have said to this point, belongs to “economic common sense,” as this was self-evident at the time of postwar reconstruction in West Germany. Alas, today we must repeat these self-evident points uncountable times in order to rescue people from their befogged “market economy” thinking.

The case of Russia

9) With all the discussion of economic reform in the Soviet Union, people have hardly bothered to make sufficiently clear either the starting point or the goal strived for. The starting point is a crumbled *imperial* economic order which rests upon “primitive accumulation” (i.e., looting of resources and labor power), organized according to the methods of a military command economy, and stretched out over a gigantic area containing many oppressed peoples, including eastern Europe. The goal to be strived for is a more or less strictly connected *system of well-functioning “national economies”* in the classical Listian sense.

10) As for the reasons for the collapse, we need use but few words. It is important to firmly establish that it does not suffice to merely blame the “weaknesses of the socialist planned economy,” in the abstract sense. The so-called planned economy was merely the tool of the imperial system, and only in this concrete connection can one understand and solve the many problems which are to be faced by a genuine reform.

11) From the very beginning, for example, those in power in the Soviet Union consciously followed a policy which kept

individual regions and republics in total economic dependency. Hence, the regions striving for independence find themselves in the unpleasant position of being absolutely incapable in the short run of separating from the economy of the Union as a whole. Naturally, it was precisely this situation that was intended by the architects of the Soviet Union. Yet what is at issue is not a peculiarity of the “socialist” system; rather *every* empire—and not the least the British—has sought to force subject peoples into similar dependent relations.

12) Hence, in the republics which wish to be independent, including the Russian Federation, it is first necessary to lay the basis for a genuine national economy. Resistance to this comes noticeably not only from the proponents of the old system, but also from circles in the West who in principle wish to get rid of the institution of the sovereign nation state, including the likes of Henry Kissinger, Prince Philip, and also George Bush. The latter, during his recent visit to Ukraine, unmistakably expressed himself in favor of the maintenance of the supranational—i.e., imperial—system in the Soviet Union.

13) In no case should one nourish the illusion that the mere abandonment of the planned economy might be sufficient to begin building a healthy economy. Quite the contrary: In the case of extremely differentiated relations of production, an ill-considered liberalization would suffice to bring about in the shortest time a catastrophic collapse of almost all branches of the economy. Precisely this has been the result until today of Mikhail Gorbachov’s perestroika.

14) The same basic law is true for economic reform as for a surgical intervention in medicine: During the operation the patient must unconditionally be kept alive. The advocates of so-called “shock therapy” of the IMF and Jeffrey Sachs naturally do not even want to hear about this. They are enamored only of their medicine; the lives of nations such as Poland or the entire Third World for them count for nothing at all. The cure ordered by them is worse than the disease.

15) The just-cited basic law dictates that providing people with food and other necessary goods (such as fuel in the winter) must be done without fail.

16) Hence, one must not, in the name of “dismantling the old structures” (no matter how justified), ~~destroy~~ the basic health care, etc. of the population by lawless deregulation. However, it must be kept in mind that the “old structures” often sought to exploit their control over basic care in order to, so to speak, take the population hostage, and to use repression to block necessary reforms. This is clearly in part the reason for the Soviet food crisis of the last several years.

17) The fact is, the economy of the Soviet Union can absolutely not survive under present conditions and economic relations without massive imports of capital goods from Europe. Hence, the most necessary deliveries, where at all possible, must be maintained. This, given today’s uncertain monetary relations, can best be effected based on barter arrangements.