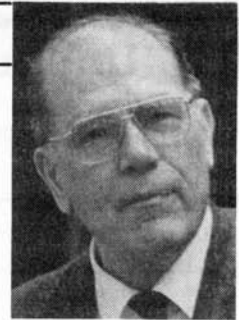

Interview: Lyndon H. LaRouche



On currency reform in the former Soviet Union

Rachel Douglas asked Lyndon LaRouche four questions, related to his Dec. 28 memorandum (quoted extensively in EIR of Jan. 10, pp. 4-5) on the subject of the threat of chaos in the economies of Russia and its associated member-states of the Minsk-based Community of Independent States. LaRouche had advised that instead of the radical price liberalization enacted Jan. 2, the governments of Ukraine, Russia, and other republics should dry up organized crime networks by imposing a currency reform. His answers, given on Jan. 4, follow:

EIR: If the black market and the gray economy—which are virtually the only market and economy functioning in the former Soviet republics—are conducted largely in hard currency (*valyuta* as they say in Russian), how will a currency exchange such as you outline, of old rubles for new gold-reserve-based rubles or old rubles for new gold-reserve-based grivnas, in Ukraine, be an effective first step to liberating the physical economy from mafia control? In other words, what if the mafiosi don't have to bother burning their old rubles, since they make sure not to hold lots of rubles and instead they operate with dollars or deutschemarks?

LaRouche: On the gray and black currency, the general solution means that the whole situation, the entire area, has to go under strict exchange controls.

The key mechanism relative to foreign currencies in particular, with respect to exchange controls, is that foreign currency, so-called hard currency, can be possessed by Russian and other citizens, but on deposit in bank accounts. That is, this is not an exchange account, where they deposit for exchange for rubles; this is a bank account in which they have foreign currencies on deposit, and subject to the rules of the situation, people have access to their own foreign currency-denominated accounts. So if they have deutschemarks or dollars, they can spend those dollars or deutschemarks as dollars or deutschemarks under the rules of exchange control, and they're theirs. They may be subject to income tax and so forth, but nonetheless, they are their money, they are not something where you buy a ruble account, with hard currency, but they are accounts which are denominated for emission to payment in the hard currency-designated deposit: foreign exchange accounts.

But the point is then that people are not allowed to be doing business internally generally in foreign exchange for small items. Of course, one does not try to enforce that, but one does on the larger items. So generally, there's a ceiling on what people should be carrying around in their pockets in terms of foreign exchange currency. Once you have that transparency, then certain things are put under control.

EIR: Would you, especially for Russian and Ukrainian leaders looking to you for guidance, differentiate the proposal more starkly, from what former Soviet Prime Minister Valentin Pavlov did one year ago, eight months before his participation in the abortive coup attempt of Aug. 19? That is the most recent experience with a currency call-in, in the former Soviet Union. It covered only the large-denomination bills (50s and 100s) and had many crazy conditions attached. Obviously your proposal is radically different because of its implied linkage with implementation of the Productive Triangle [LaRouche's proposal for a high-speed rail-linked buildup of the Berlin-Paris-Vienna industrial triangle, to restart the world economy], and what you said explicitly about "creating sensible international trade agreements" and about the necessary changes in the western nations. But since the bitter taste of Pavlov is still with them, perhaps it would be appropriate to spell out, that this is not supposed to be a replay of that failed maneuver, if people ask, "How does your currency reform differ from the Pavlov measures of winter 1990?"

LaRouche: It should be specified, there is no resemblance between what I'm proposing and the Pavlov proposal. Actually, Pavlov's stunt had the effect of increasing the strength of hard-currency transactions. By calling in large-denomination rubles, what you do is you enhance the equivalent currencies which are foreign hard currencies there.

EIR: How would the consumer and producer commodities baskets using "commodities in general circulation and production within the former Soviet Union"—on which the new ruble's and new grivna's values would be based—get determined, in view of the massive collapse of physical production and distribution of such commodities over recent months? In the U.S., where recent years' speculative binge has intro-

duced big distortions, we often talk in terms of 1970 dollars and 1970 purchasing power of the dollar, but how would you do this for the ruble where its previous purchasing power was also distorted by unjustified subsidies and other factors?

LaRouche: The problem here is hoarding. We have a state—or several states, in this case, of this Minsk Community—which have *hunger*, essentially. And there are goods for sale, presumably, which are being hoarded. As a result of this hoarding, *people may die*. It is negligence on the part of the state, to allow hoarding to continue under these circumstances, for any reason. The state has the obligation to take these hoards at fair prices, since that limits holding goods which are not simply for one's own personal consumption, and to seize the goods, and to apply the criminal law, to those who violate it. It is not only the *right* of the state to do that, it is the *obligation* of the state to do that. And if the state does not take such action against the black and gray market, then the state will fall because a government will arise which *will* take such action. So these dumb bunnies better wise up. Either the present government has got to realize they've got to do that, and crack down the hoarders, or else they will find a government following them, as [Vice President Gen.] Ruts koy implies, which will. That government, when it comes in, will be a kind of Army-backed, populist movement, which had to act, because it could not see Russian people starving. You will not get a coup d'état which shoots down the Russian people. You might get, though, a coup which goes after the hoarders to *save the lives* of the Russian people.

The crime in this case has got to be somebody who starts killing the Russian people by such means as starving them to death, through the mechanism of hoarding.

The essential problem is, as I said, in this kind of joke, that after 70 years of saying capitalism is theft and crime, Gorbachov said, "You're all capitalists," and a great number of communist officials became thieves and speculators. Now, what will be said, not by communist standards or other standards, but simply by human standards, is that Gorbachov was one of the greatest criminals in the history of Russia; that what he did to Russia was something on the order of magnitude of what an evil foreign invader would have done.

This man did great evil. We see it in this, the unleashing of hordes of locusts, of these criminal elements, often the dregs of the former communist bureaucracy, engaged in these kinds of operations against their own people. These are criminals.

Now we can say, maybe Bolshevism criminalized a lot of people. So be it. But you cannot play games with that. There are shortages of supplies all over the world, in every country. And governments must address the human requirements. In the eastern part of Germany, we have people who are subject to cruelties caused by these greedy, Adam Smith-influenced, Milton Friedman-influenced, crazy Harvard Business School-type business bureaucrats from the West, who shut down whole chunks of the economy in east Germa-

ny as a way of eliminating that potential competition with their firm in west Germany. And the people who are crushed by this, after already being exploited by the Soviet occupation de facto of East Germany, they turn around and they stand up and they say, "*Wir sind das Volk.*" ["We are the people."]

The same thing applies in a different way in Russia. Governments must recognize their responsibilities primarily to the rights of the individual people, the people who *are* the purpose of the government; and if the government does not defend the people, when it comes between hoarders and black marketeers and criminal elements in the government, then the people will get rid of the government—or will tolerate somebody who will.

EIR: Would you comment on the matter of prices? This is a big fixation right now, obviously, due to the prescriptions of Harvard "shock therapy" advocate Jeffrey Sachs, who advises the Russian government, and his followers. The skyrocketing of prices in the last few days drastically changes the so-called purchasing power of the ruble; although where there are no goods on the shelf, the purchasing power remains the same, namely zero.

LaRouche: The essential thing is that you have to go to a controlled price, and it has to be a calculated, fair price based on cost of production. This means controls; it means exchange controls, credit controls, the whole business. The free market in any form is intolerable; there is no way of making a free market reform by some kind of algebraic formula that's supposed to work in the way that free trade is supposed to work. You're going to go in there and you're going to have administered prices, administered uses of currency, administered credit, administered exchange controls, etc., export-import licensing, the whole works. You've got to have it. As all the wiser ones are saying, they're talking about a free market, but *there is no market. There is no kind of market mechanism in existence in this area*—at least not in a general way. You have to administer, create a market by administration of prices, of currency, and so forth. There is no other way. And the government that does not do that, cannot do that, is going to be replaced in the not-too-distant future by one that can, and will.

One must not get off on this false business about the so-called democratic economy; one has to be realistic about what's loose out there. What's loose is a bunch of criminals and speculators, hoarders, who are the immediate, most proximate enemy of the Russian people. Unless the government acts against these criminals and speculators and hoarders, they're going to find a government that does. You're going to have to *calculate* prices, and set them. And you're going to say, if somebody is caught hoarding, he will get a prison sentence, and everything that he has made will be taken from him as the proceeds of a criminal enterprise. And that's that simple.