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Clinton, Gore under attack from IMF asset-stripers

by Edward Spannaus

As President Clinton arrived in Moscow on Jan. 12, the fight over International Monetary Fund policies that erupted four weeks earlier appeared to have subsided. During the period since Vice President Al Gore's criticism of IMF conditionalities in Moscow on Dec. 16, and then Strobe Talbott's "less shock, more therapy" statements a few days later, administration spokesmen have been at great pains to stress that Gore and Talbott's statements were "misinterpreted" and "taken out of context."

"More reform, more therapy," was the sound-bite formula put forward by Clinton on Jan. 5. By Jan. 13, while Clinton was in Moscow, the *New York Times* declared that the Gore-Talbott view of easing western conditions for aid "was strongly opposed by the Treasury Department and seems to have been firmly quashed."

But, no matter how hard the spin doctors try to put their gloss on what U.S. and western policy toward Russia should be, the determining factor will be the economic and political reality in Russia. The reality is that "shock therapy" is finished. Russian Prime Minister Viktor Chernomyrdin has said this on a number of occasions, most recently in the days leading up to Clinton's arrival there. As some sources have indicated, this message will get through to Clinton, although it may not be necessarily evident from press accounts of his trip.

"There will no longer be shock reforms," Postfactum news agency quoted Chernomyrdin as saying on Jan. 5. Addressing the opening session of the State Duma on Jan. 12, Chernomyrdin said that the country would be moving to "another stage of the reforms, the stage of economic stabilization, in which emphasis in all the government's activities is being shifted toward creating favorable conditions for the work of the Russian commodity producer.

"We intend to act without succumbing to unjustified spurts or poorly thought-out 'shock' decisions," he said.

What Gore said

As soon as Gore returned from Moscow, the terms of the IMF discussion focused on the idea of a "social safety net," i.e., providing assistance for workers who become unemployed due to the shutting down of industries. The assumption of almost all sides in the debate was that inefficient industries (i.e., heavy industry) must be shut down and assets sold off, as government subsidies are ended. But this is not the emphasis of what Gore said.

Gore was in Moscow meeting with Chernomyrdin as part of their work on the commission on space technology and energy. In a joint press conference with Chernomyrdin, Gore stressed the "devastating" impact of cutbacks in the Russian defense industry, noting that in some communities, as many as 80-90% of the people employed have been employed in defense industries. "And part of the tragedy is, these people are extremely talented, well educated, well trained, very capable, and have a great deal to offer to the world in terms of their expertise and talents," he said. Gore described the joint U.S.-Russian efforts to open up new avenues for cooperation, citing a number of agreements which are "all focused on investment and on economic progress."

Responding to a question about the IMF, Gore made his statement criticizing IMF and World Bank conditionalities. "Now that right there may be enough to create a diplomatic incident," Gore continued, "but I don't care because the world has to recognize the gravity of this situation and the enormity of the opportunity for the world to integrate this magnificent nation with these wonderfully talented working men and women, scientists and engineers and professionals, into the common effort of humankind to build a better way of life for the peoples of our world."

Two days later, Chernomyrdin said that the Russian government would focus less on tight monetary policy and more on big investments. "Now investment and production rise are

becoming the main issues," he said, adding that the government would concentrate on launching high-technology projects.

But, in interviews over the next weekend, Treasury Secretary Lloyd Bentsen and other Treasury officials attempted to dilute Gore's criticisms of the IMF; Bentsen said that there has not been excessive reform, and that some conditionality on loans is needed. Anonymous Treasury officials were quoted as retailing the IMF line, that Russia's problems are caused by "too little reform rather than too much." All of a sudden the terms of the debate, at least as it was being carried on in public, were whether there was too little or too much shock therapy, and whether western aid should be provided to enable Russia to create a "safety net" to catch those thrown out of work. Except for a handful of voices who questioned the wisdom of shutting down all industries, lost in this debate was any emphasis on the need to keep factories open or to increase production, not just trading.

IMF counterattack

On Dec. 30, a memorandum was issued by the IMF and World Bank staff on economic reform in Russia. The note, a criticism of Gore and Talbott's statements, said that the problem in Russia was that reform had been "extremely gradual," and needed to be speeded up. The note went on to say that "the social dimension is best addressed through targeted social safety net policies," of the sort recommended by the IMF and World Bank, "rather than through generalized subsidies and credits" to industries. The memo demanded "macroeconomic stabilization," with tight limits on credit and budget deficits; expanding of privatization programs and legal reform, liberalizing external trade, bringing energy prices up to world levels, shutting down old power plants, and keeping conditionalities.

Lawrence Summers, undersecretary of the treasury for international affairs, warned in a speech in Boston on Jan. 3 that there is no "third way" of economic reform, i.e., between communism and free-market capitalism. Addressing the lessons of the recent Russian elections, Summers declared that "it would be a grave mistake to infer from the election any mandate for a 'third way' approach to reform. . . . There is no viable alternative for economies in transition besides the hard work of [monetary] stabilization and privatization." An IMF official involved in drafting the Dec. 30 note told *EIR* that the speech was a "direct reaction" to the IMF memo.

The alternative to communist economics

The argument of the pro-IMF faction—that the free trade model is the alternative to communist economics—was demolished in a memorandum by economist Lyndon H. LaRouche on Jan. 8. In fact, LaRouche pointed out, Marx didn't specify any particular form of economy; his work was premised on the work of the physiocrats, and of Adam Smith and David Ricardo. Marx's work is a criticism of the British model of capitalism, but it shares the same underlying premises.

"Marx's criticisms are premised on the assumption that British economy is the only model of capitalist economy, which is frankly, of course, absurd," LaRouche wrote. "The American System existed before the British East India Company had elaborated fully the system which Marx criticized, the American System being based and derived largely from the work of Leibniz and Leibniz's allies among the Mercantilists so-called."

The problem of the Bolshevik economy, LaRouche noted, is that it was characterized in most of the civilian sector by a lack of willingness to accept improved technology, a stubborn peasant resistance to technological progress. This is the significance of the military industrial sector in the Soviet economy—the sector emphasized by Gore in Moscow. LaRouche noted that it was only in the Soviet military industrial sector that science and technology were actually applied, and thus "it was in the military industrial complex of Russia that all of the generated profit of the Russian system was created."

"The military sector of Russia was an economy essentially of exception," commented LaRouche. "It was a war economy section which lay outside what is otherwise the general economy of Russia. The result is that the dismantling of the military-industrial complex means the collapse of the Russian economy to a Third World condition." Except for this sector, LaRouche observed, the Soviet economy was a complete failure, just as the free trade model has been a complete failure.

LaRouche pointed out that in the Russian scientific and military-industrial complex as a whole, there is "one of the best set of scientists on this planet," at least before they were dispersed by the Gaidar-Sachs reforms. The Russian scientist is generally the key to seeing what the solution is; the Russian scientist can understand exactly how a good economy should function in terms of increasing the relationship between scientific progress and the conversion of these principles into machine tool applications, and then into knowledge and products.

LaRouche concluded that we need that kind of mixed economy which was anticipated implicitly by Alexander Hamilton, and by his successors, including Friedrich List in Germany, and by those who understood such matters, such as Sergei Witte in Russia. This is variously referred to as the "dirigist" or "mercantilist" model, or often just as the "American System" of political economy.

Although neither Gore nor Talbott has come anywhere near putting the issue in these terms, Gore has at least emphasized the importance of preserving the scientific and intellectual elites which are concentrated in the military-industrial sector of the Russian economy, and Clinton and Talbott have shown a willingness to move away from the policies of the Bush administration. As against those who insist on the IMF policy of asset-stripping, of shutting down Russian industry, Gore's statements indicate a degree of reality which is desperately needed in the debate over Russian economic policy.