

LaRouche tells Russia: 'Scrap the IMF package!'

The following article, by Lyndon H. LaRouche, Jr., appeared in the Russian periodical Kommersant-Vlast on Jan. 26, under the headline, "Lyndon LaRouche, Economist: Scrap the Foolish IMF Package!"

Since 1991, successive Russian governments have been following the prescriptions of the IMF for the decontrol of prices, radical economic and financial liberalization, and indiscriminate opening of markets to imported products. The basic result has been to transform Russia into a raw materials producer, rather than an agro-industrial country. The collapse of the financial system ultimately led to default. You could say, that a whole era of the world financial system based on radical free trade and globalization, ended on August 17th, 1998, with that Russian default.

The world is experiencing an ongoing global economic, monetary and financial disintegration process. Its first phase was the series of financial disasters in Southeast Asia. The second phase can be dated to Aug. 17, 1998 in Russia. The dramatic collapse of the Brazilian real should be seen as marking the onset of the third phase.

To those who wish to prevent the blowout of the world financial system, I say: There is only one short-term measure which could bring the chain-reaction factor—the capital-flight factor—under control. That is immediate introduction of capital and exchange controls, followed by steps toward establishing a new international monetary order modelled upon the pre-1958 phase of the Bretton Woods system. Malaysia's Mahathir was right about almost everything. Unleash capital and exchange controls now. Scrap the foolish package of measures, proposed by the IMF. If you don't, you will soon see what you get!

One of the leading consequences of the collapse of the \$41.5 billion Brazilian "rescue package" is the utter discreditation of the IMF, which had announced the package in early November 1998. Ever since the August 1997 IMF bailout package for Thailand, such IMF-led actions for Indonesia, South Korea, Russia, Ukraine and now Brazil, have all proven to be economic, social and financial disasters for the nations concerned, while at the same time saving the lives of the private creditors, who were promptly bailed out. Since the Thai "rescue" package, the IMF has committed an unprecedented \$180 billions to such actions. In each case, the IMF demanded severe budget cuts, slashing living standards of the population and depressing the real economy.

There are five leading factors for Russia's economic reconstruction:

First. Natural monopolies, those associated with the processing of primary mineral resources and, also, large-scale infrastructure systems for mass transport, power generation and distribution.

Second. Machine-building capabilities, with a special emphasis on surviving Russian capabilities from the former Soviet military-scientific industrial complex, which is the one sector of the Russian economy that can provide the core of that economy's ability to generate high rates of growth of the labor productivity.

Third. Other industrial capabilities that can be revived, expanded, and improved, to provide most of the requirements of Russia's population.

Fourth. Agriculture, which must be developed to secure domestic self-sufficiency. The failures of agriculture were the Achilles' heel of the former Soviet Union.

Fifth. Russia's Arctic regions, which have vast natural resources. The Russian North represents the natural economic frontier of Russia's future, which could have an enormous positive impact on the economic future of Asia as a whole.

Kommersant-daily quoted Maslyukov, who said that to fulfill that demand would mean for "the already meager social sphere to be dismantled completely." The Fund has criticized the government's plan to cut the value-added tax (VAT), and insists that tax revenues go preponderantly to the federal center, Moscow, where they can be used for debt service.

Returning to Moscow on Jan. 18 from talks with IMF and U.S. Treasury officials in Washington, Maslyukov reiterated that the Russian government no longer seeks IMF loans to cover current domestic expenses. "The only goal of our talks with the IMF is agreement on refinancing our debt to the IMF itself; we do not need other money from them," he said. At a press conference on Jan. 20, Maslyukov elaborated on the

areas of disagreement between the Russian government and the IMF: "They say that the tax burden should be increased and we say, no, the tax burden should be eased, because without it it is impossible to bring life to the real sector in the economy." Concerning the intended reduction of the VAT from 20 to 15%, Maslyukov said, "Any person engaged in production will tell you . . . [that the] value-added tax is the heaviest of shackles on our production, and everybody will tell you that a cut by 5% means greater circulating capital and the possibility to develop the enterprises. And this is what we need urgently."

Answering questions, Maslyukov again raised the point that some austerity demands cross the line of what is tolerable,