Will economic sanity avert disaster in eastern Europe?

by Susan Welsh

Anatoly Sobchak, the mayor of St. Petersburg (formerly Leningrad), addressed a conference of European bankers and industry representatives in Frankfurt am Main, Germany, on Sept. 27, presenting a blunt challenge and a warning. The transformation of the former Soviet Union into independent republics, he said, "will work only if certain politicians in the West, especially in the United States, stop thinking in categories of 'poor Russia' . . . 'economic chaos.' This approach is extremely short-sighted. Certain western politicians seem to think that continued chaos in our country somehow favors the West. I hope that you businessmen realize this is not the case and that you join with us to help create the new structures of society. Open frontiers from Sakhalin to the western borders of west Europe, in one vast economic zone, would be the most positive thing for all mankind."

Mayor Sobchak proposed that the European Community [EC] set up a fund to modernize the Russian food sector. "Russians are a very proud people and it would be a dangerous humiliation to accept western food charity, he said. "Rather, I have a proposal that the European Community sell, say, $10 billion worth of its grain and other food surplus to us, but accept payment in rubles at the start. This would be a special fund of 150 billion rubles which would be kept inside Russia and used to funnel credit to agriculture. We have millions of acres of fallow land; we could, for instance, invite some 20,000 Germans now living in Kazakhstan to Russia and offer them land and credit if they help in modernizing Russian agriculture production. Within 1-2 years, we could become self-sufficient in food, and within, say, five years we could begin to repay in hard currency the initial $10 billion to the EC or its banks."

The failure of the free market model

These statements come in the context of the deepening economic crisis in the new Union of Sovereign States (U.S.S.), a crisis that resulted from the abrupt shift away from the failed communist economic and political system, to a crazed experiment in radical free market economics, according to the recipes of Britain's Margaret Thatcher and Harvard University's yuppie financial guru, economist Jeffrey Sachs. As the harvest is brought in and winter comes on, there are fears in many quarters that this will be a winter of hunger, or even starvation.

On Sept. 27, Grigory Yavlinsky, Harvard's favorite Soviet economist, announced at a meeting in Alma Ata that Soviet gold reserves are almost gone, as a result of desperation and political maneuvering among the republics. "The failure of the economic mechanisms that occurred at the end of 1990 beginning of 1991 caused the former leadership" to double the sales of gold and precious metals, he said. "This has effectively resulted in our reserves today being a little more than 240 metric tons"—not the 2,000 tons that some had claimed.

Further, Yavlinsky claimed that the $15 billion in hard currency deposits or credit lines with western banks has also been depleted. "We started to hold back payments, and somewhere in October, November of last year, we began to be refused short-term credits. We were immediately forced to settle [trade accounts] using the deposits we had. The upshot was, we lost everything. Today we have nothing. . . . We've reduced our gold reserves. . . . We've lost all our foreign currency reserve deposits in the course of a year."

In a word: Moscow has nothing in its pocket with which to buy desperately needed products abroad.

The failure of the Sachs model is most obvious in the case of Poland, where it has been in effect the longest and has turned workers whose productivity may have been low into an army of unemployed, and shut down basic industry—including the largest tractor assembly plant in eastern Europe, the Ursus works. Some Russian policymakers, looking at the disaster in Poland, are vowing that they will not make the same mistakes.

There is now, therefore, a great eagerness to find out about economic policies that are neither those of Karl Marx nor of Adam Smith: the "American System" economics of G.W. Leibniz, Friedrich List, Alexander Hamilton, and Lyndon LaRouche. That successful, but generally suppressed, tradition in economic science rejects the free market idiocy of the British. The idea is to generate government-backed credit for scientific and industrial development, as the motor for raising the living standards and creative potential of the population. Contrary to the mythologies peddled at Harvard University and the London School of Economics, it was this "mercantilist" or "cameralist" approach that boosted both Germany and the United States into becoming industrial power houses in the 19th century.

Since the onset of the anti-Bolshevik revolutions in eastern Europe in 1989, these ideas have been extensively circulated by *EIR* and the Schiller Institute, through numerous conferences, seminars, briefings, and volumes of printed material. The LaRouche proposals are also circulating on unofficial circuits, in "bootleg" translations, and even from some west European think-tanks which have no ties to the Schiller Institute or *EIR*.

Revive Witte and Stolypin!

In Russia, the nearest approximation to these policies is identified historically with the names of the statesmen Sergei Count Witte (1849-1910) and Prime Minister Pyotr Stolypin (1905-1911).

In a Sept. 5 interview with *EIR*, a senior European analyst stressed that "anybody who wants to figure out the debate going on in Russia, must look carefully at the 1888-1910 period. The problems today are roughly the same as then: how to centralize authority with lots of potential rebellions threatening. The people who matter in Russia now are thinking of these traditional types of models."

"There is a lot of consideration of both Count Witte and Stolypin, especially Stolypin's agricultural reforms," he said. "Many Russians are now reviving Witte and Stolypin, and these Russians are not idiots; they have in mind a traditional and institutionalized system, which is *not* the market economy that we in the West talk about. Witte understood the market as a form of compromise, not confrontation, a way to get things organized. Stolypin understood two things: one, that Russia needed capitalization, and the other, that things must not run out of control.

"These traditional models can work now. I think they will work. Those people in the U.S. and Britain who are playing around with the strategic card of a civil war in the Soviet Union are not only dangerous and irresponsible, but will soon have their noses rubbed in the dirt."

One example of the "Witte tendency" in Russia is Arkady Volsky, a member of the economic reform commission of former Russian Prime Minister Ivan Silayev. According to a profile published in the German weekly *Die Zeit* on Sept. 5, Volsky wants to launch an industry-centered economic policy, modeled on the Imperial Russian Association of Industry and Commerce, which was founded in 1895, during the Witte period, and existed until 1918. Volsky is the chairman of the Association of Industry and Science, a lobbying group of 1,500 individual firms and several dozen industrial groups of the ex-U.S.S.R. state sector.

Poland: Thatcher vs. LaRouche

In the case of Poland, where parliamentary elections are coming up on Oct. 27, a debate is raging throughout all political parties and institutions on an alternative to the failed free market economics.

On Sept. 25, the Schiller Institute gave a seminar on "Freedom Through Development," in the famed Hall of Mirrors of the Academy of Sciences in Warsaw. The meeting was opened by Helga Zepp-LaRouche, the president of the Schiller Institute in Germany and the wife of U.S. political prisoner and presidential candidate Lyndon LaRouche.

"Exactly one year ago," she said, "we had a similar meeting in Gdansk. At that time, I warned that a continuation of the Jeffrey Sachs 'shock' program would lead Poland into a catastrophe. Had we been listened to at that time, Poland would have been spared the bad experience of the last year. Now is the time to finally take up the alternative to Sachs and [Polish Finance Minister Leszek] Balcerowicz: our program for a European Productive Triangle."

She and Dr. Jonathan Tennenbaum developed, for the audience of 30 political and economic policymakers, LaRouche's concept of an integrated European infrastructure program, as well as the theoretical foundations of a science of Christian economy, going back to the ideas of Leibniz and List.

Hard on the heels of the Schiller Institute delegation, former British Prime Minister Thatcher arrived in Poland on Oct. 1, in a mission aimed, according to sources in Warsaw, at strengthening the electoral chances of the "Thatcherite" clique. Polish Prime Minister Jan Bielecki met Thatcher at the airport, praising her ideas as "fantastic"—which, indeed, they are.

Among the policies that the Polish Thatcherites are pushing, are faster privatization and even deeper cuts in public spending. What this means in practice was described by the London *Times* of Oct. 2: Thatcherite Poland is one where "pensioners eat cat food, while the rich shop at Dior." Schools are open no more than four days a week, and teachers' salaries are collapsing, while "white sports cars are double parked" outside the new private schools, for the children of the new free-market entrepreneurs that are making a killing by buying up undervalued state companies, while workers are laid off.