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Opposition to Harvard's Sachs mania mounts in Russia

by Mark Burdman

Barely two weeks after uncontrolled price-floating measures were put into effect on Jan. 2, an institutional opposition to "shock therapy" policies has begun to take shape in Russia. While this opposition lacks, at least for the moment, a coherent economic alternative, it does express the resistance of responsible figures in the military, the trade unions, financial structures, and the parliament, to what is perceived as a potentially disastrous destruction of Russia's economic and defense capabilities and undermining of its national sovereignty. This group has publicly named the enemy: Harvard University's Jeffrey Sachs and his team of radical free market gangsters advising the Yeltsin government's economic policy czar Yegor Gaidar.

What makes this political "war at the top" all the more troubling for Sachs, is that the Russian opposition group cannot be dismissed as a pack of discontented leftovers from the former Soviet communist structure angling for a comeback, even if certified communists are indeed trying to exploit popular discontent. The opposition's first prominent spokesman was Vice President Gen. Maj. Aleksandr Rutskoy, who has since been joined by Speaker of the Parliament Ruslan Khasbulatov and Central Bank head Georgi G. Matyukhin, as well as by the head of the Federation of Independent Trade Unions of Russia Igor Klochkov. These are either individuals within the Yeltsin government, or Yeltsin loyalists throughout the recent period.

All of these, as well as Boris Yeltsin himself, are aware of the potentially volatile mood in the Russian population, as prices soar, while the promised compensatory rise in supplies of commodities has not occurred. In most cities, stores are empty, and the mood of Russians is that "anything can happen" during the weeks and months ahead. Two weeks to the day after Gaidar announced the price rises, Radio Moscow stated in an unusual Jan. 16 news item: "The reforms in Russia have gotten off to a bad start." Prices had, in general, increased four-to- five-fold, despite Gaidar's announcement that prices would "only double," and "another alarming factor is that while prices are growing, production is declining."

Yeltsin has made two tours to gauge the political mood, one to such Volga industrial centers as Saratov and Nizhni-Novgorod (the former Gorky), the other to Briansk and St. Petersburg. Upon return from the latter Jan. 15, his office in Moscow made an abrupt decision to summon an urgent summit of the Commonwealth of Independent States (CIS) for Jan. 16, to deal with the rising tide of protest at food shortages, rising prices, and declining production, and to avert "potential economic catastrophe." Indeed, leaders of other CIS member-states, who have generally followed Russia's lead to one degree or another in introducing price rises, also have cause to be nervous, as their populations react. In several, including Kazakhstan, Turkmenistan, and Uzbekistan, the governments have moved rapidly to declare a price freeze on many basic commodities.

Yeltsin preceded the CIS meeting with a speech to the Russian Parliament, in which he avowed that the "harsh measures" so far enacted would continue, and that most of the people were showing that they were willing to "grit their teeth" and accept "great hardships" for the time being. He charged that "ambitious politicians," by contrast, were trying to exploit popular unrest for their own purposes, and that the old communist bureaucracy and local "trading mafias" were sabotaging the reforms by withholding supplies from the shops.

But one day after this attempt to put a brave face on the situation, the Federation of Independent Trade Unions of Russia scheduled "mass protests." Following "consultation with local trade union bodies," the federation announced, the leadership had come to the realization that the Russian government had "walked back on pledges to protect the people from growing prices," Radio Moscow reported Jan. 16. On Jan. 13, Federation head Klochkov had warned that the unions would carry out "all forms of civil disobedience, including strikes," unless the government were to agree to raise earnings, broaden the list of fixed prices, and enact minimum social guarantees. Other labor unrest is reported from the Kuzbass coal-mining region in Siberia. The head of the local workers' committee there, Aleksandr Oslandi, announced Jan. 15: "If it does not act more effectively, this government will go, leaving more poverty than before." Wildcat strike actions had broken out in the Kuzbass in the days preceding this statement.

Various informed sources have told *EIR* that they think Yeltsin's political life will be very short, unless he decides to get rid of Gaidar.

'Utterly senseless, divorced from realities'

One barometer of the intensity of opposition to Sachs's policies, is that the Harvard incompetent felt compelled to take the unusual step of giving a press conference and series of interviews in Moscow Jan. 15, to defend his puppet Gaidar's "quite incredible" achievements. "It is fair to say that there is a power struggle, and on it depends the success of the reform program," he warned. "The West must understand what is happening. If the struggle is not resolved in favor of a tight monetary policy, then the program is in jeopardy. The issue is very urgent—it is a matter of a few weeks." He criticized the West for not having been forthcoming enough in aid money for Yeltsin's Russia.

Aside from simply lying that supplies had "improved discernibly and markedly for most commodities," Sachs laid the entire blame for the current problems on the Central Bank and the Parliament. He charged that the Parliament was hesitating to tighten the budget and raise the necessary taxes, and accused the Central Bank of being responsible for the state of Russian finances, because of its over-printing of money. He also said the bank had refused government and International Monetary Fund (IMF) officials access to its books.

Sachs should, indeed, be in a harried mood.

Beginning on the Jan. 11-12 weekend, Parliament Speaker Khasbulatov launched a series of angry attacks on the government's economic policies. On Jan. 13, he called for the government's resignation, stating: "The President should distance himself from the government, which is not only a failure, but simply incompetent. . . . A situation is developing in which we [in Parliament] can either suggest to the President that he remove the incapable government, or do it ourselves."

Khasbulatov told the Parliament's presidium that a trip to the Ryazan region had convinced him that the government's implementation of the reform was "utterly senseless, divorced from the realities of economic life." What had been occurring during the past days was "an uncontrolled, anarchic, and runaway price rise."

In further comments little noticed by the western media, Khasbulatov aligned himself with Russian V-P Rutskoy, defending the Russian "military-industrial complex" as a vital sector of the economy and warning that the sharp reductions in orders for military equipment, ostensibly aimed at reducing the colossal budget deficit, had caused "state-of-the-art equipment" to lie idle. Toward the end of 1991, even before the Gaidar measures were officially announced, Rutskoy had begun to issue a number of attacks, in an interview with the German *Stern* magazine and on other occasions, on the direction of economic policy in Russia. He derided Gaidar as an unknown "in pink pants," and insisted that Russia required "a strong executive under the control of Parliament," as an alternative to the anarchic, chaotic "dictatorship from the streets" that was developing.

'Our whole republic will be bought for a dollar'

Khasbulatov was quickly backed by Russian Central Bank chief Matyukhin, who singled out Sachs for attack. In comments reported in the *International Herald Tribune* Jan. 14, Matyukhin said that Yeltsin and Gaidar had been making mistakes, which stemmed, in part, from listening to Sachs and his group, who have no understanding of Russian realities. He said: "They know as little as we do, although they are paid very well. I would give such advice to anyone for a tenth of the price of what they are paid."

Matyukhin warned that the "reforms" of the past days were badly conceived, and could lead to social uprisings. Prices were soaring without increased production. These were part of a "shock therapy" that has no place in Russia. He insisted that it was completely wrong to liberalize prices *before* the break-up of state monopolies, since doing it Sachs's way ensures that there will be no new supplies to balance out rising prices. "Of course, the locomotive can sometimes be put behind the cars, but then it won't be able to see the track ahead. One thing I am sure of: Poland's example is not right for us. We are not ready for that shock therapy."

Matyukhin expressed disagreement with the Sachs-Gaidar idea of rapid free ruble convertibility, insisting that such a policy should take years to develop. Doing it their way would mean that the plummeting value of the ruble will "allow our whole republic to be bought for a dollar."

He conceded that Yeltsin would prefer to have him out of office, but "to fire me is not so easy." He said that he believes that it is likely that Yeltsin will be compelled to change course, as it becomes obvious that the "reform" policies aren't working: "It's always like that in Russia. We smash our heads against the wall, and only then do we begin to realize we should go another way."

Also on Jan. 14, the Russian Institute of World Economy and International Relations (IMEMO) released a 50-page study warning that Russia will be plunged into a "mafia-style economy" if Yeltsin does not abandon the shock-therapy track. IMEMO head Vladlen Martynov stated that Russia runs the risk of becoming a "post-industrial economy" with hyperinflation, collapse of industrial output, and huge job losses, if the shock therapy monetarism continues.

Sachs's free market mafia

For the moment, though, the Sachs group is certainly in control of the direction of policy in Russia. This group consists of eight non-Russian official advisers to the Yeltsin government, from the United States, Britain, Sweden, and Poland. Aside from Sachs, there are three others in an "inner core" around Gaidar, including Swedish diplomat Anders Aslund; former IMF official David Lipton, who now heads the office of Sachs's consulting firm in Washington; and André Schleiffer of Harvard. A second group consists of the London School of Economics' Richard Layard; Stanislaw Gomulka and Jakov Rostowsky, two Poles, the former at the LSE and the latter at the University of London's School of Slavonic and East European Studies; and Marek Dombrowski, former first deputy prime minister of Poland. On Jan. 14, Polish television reported speculation that ousted Polish Finance Minister Leszek Balcerowicz, Sachs's clone in Warsaw, would soon become a consultant to the Russian government.

With the backing of the International Monetary Fund and Group of Seven, which insist on radical "reforms" as a condition for aid, this group began to make inroads into the Yeltsin government back in September 1991, not long after the failed August putsch. Then in early November, Sachs made a trip to Russia, immediately after which the little-known Gaidar was given the powerful position of running an economic super-ministry in the Russian government. Earlier, Gaidar had been with the Soviet Academy of Sciences' Institute of Forecasting.

According to one London source who has been in regular contact with London cohorts of Sachs, the Sachs group is "passionately opposed" to all forms of "dirigism" and to the American System of Political Economy, associated with the names of Alexander Hamilton and Germany's Friedrich List, and with Russia's Count Sergei Witte, who promoted List's ideas at the end of the last century. "They reject the idea that the government can come up with a coherent approach to national investment. . . . They insist that any List-type plan, a dirigist approach, would only benefit the previous, communist-era managers of the economy. . . . They are very impassioned, in an ideological way."

EC finally recognizes Croatia and Slovenia

by Umberto Pascali

On Jan. 15, the 12 countries of the European Community recognized Croatia and Slovenia. After 74 years, Yugoslavia, the artificial geopolitical body created by the Treaty of Versailles, has ceased to exist.

The U.S. administration, and particularly Deputy Secretary of State Lawrence Eagleburger—the author of the policy of non-recognition at any cost—were defeated and isolated, as were former U.N. Secretary General Javier Pérez de Cuellar and his "special envoy" Cyrus Vance, whose cynical slogan was that recognition was "too dangerous." Finally, this is a clear blow to the "new world order" of George Bush.

Other countries are joining in the recognition, including Canada and Austria. Switzerland, Poland, and Bulgaria will do so soon. A turning point, according to observers, was the decision by the Vatican on Jan. 13, two days before the deadline established by the EC, to "send a message to the republics of Croatia and Slovenia recognizing their independence and sovereignty." That diplomatic step boxed in certain European countries, notably France and Great Britain.

The Serbian "federal" government of Belgrade responded by firing its ambassador to the Vatican, despite the fact that the Vatican had underlined that its recognition of Croatia and Slovenia was not to be interpreted as a hostile act. The patriarch of the Serbian Orthodox Church personally blamed the Pope. Two hours after having been fired, Ambassador Ivica Mstruko received a telegram from Zagreb asking him to represent the Croatian Republic instead. He agreed.

Recognition does not in itself end the war. According to several reports, Bosnia is preparing for a possible explosion with Serbia. The republic is swarming with Serbian Chetnik irregulars, mostly from Montenegro, and with Army soldiers. Serbia has accepted the latest U.N. cease-fire for only one reason: It controls one-third of the Croatian territory.

Germany is for the moment the only country that has exchanged ambassadors with Croatia and Slovenia, and has indicated its readiness to recognize Bosnia and Macedonia also. France is still insisting that there cannot be a formal exchange of representatives because the "human rights" of the Serbian minority must be better guaranteed. Serbian Deputy Foreign Minister Dobrosav Veizovic said that the recognition "does not mean an end to the continuity of Yugoslavia." Croatian representatives noted that neither Russia nor the U.S. intend to recognize the new republics. "Will this be peace or the beginning of a more ferocious war?" they asked.