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IMF 'cure' is worse than the disease

by Konstantin George

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The truth to the statement headlining this presentation ought to be clear to anyone who has observed or suffered under the economic catastrophe that has struck Russia this past year, as Acting Prime Minister Yegor Gaidar has implemented, or tried to implement, the conditions demanded by the International Monetary Fund. . . .

Since the 1982 Latin American debt crisis, the IMF has acted as the New York banks' policeman to collect the Latin American debt and all Third World debt. The usury that the IMF polices does not simply mean a high debt as such. The purpose of usurious interest rates—and that has been the case since the Paul Volcker high interest rate policies of the late 1970s—is to create conditions of permanent debt bondage for nations. This means that no matter how much of the debt is paid back, the total debt owed always climbs higher.

In 1982, Third World debt was $800 billion. Today it stands at $1,500 billion, after a decade in which the great majority of Third World debtors received not a single dollar in net new credit. A Third World debt study just released by the German Starnberg Institute for the Study of Global Structures, "Developments and Crises," states that from 1982 to 1992, the Third World paid $225 billion more in debt repayment, interest and principal, than it received in new capital. The net capital drain has been far higher when one includes hundreds of billions of dollars in flight capital. The so-called new loans, 1982-92, were to roll over existing debt, to restructure the unpaid part of the former debt. . . .

Gaidar destroys the market

The IMF system contains two other devastating parallels with the Bolshevik Soviet system: ideology to justify the greatest of crimes, and being a liar. Just as Bolshevism developed a communist ideology to justify the exercise of naked power and crimes by a power clique, up to and including genocide against a people, so the IMF has developed the ideology of the "free market," toward which goal all and any crimes are justified. . . .

The essential precondition for any real market is a society of citizens who have the means to purchase goods. A population with no purchasing power means no market. In September, Gaidar himself partially admitted this fact, so obvious to every member of Russian society. According to Gaidar, who deliberately presented a picture much better than it actually is, the results of the first eight months of his "shock therapy" were: The price of goods rose 15.6 times, while wages rose 10.6 times. Unemployment has soared, and again according to Gaidar, 12 million Russians are living "below the poverty line," a line defined by Gaidar at 1,200 rubles per month.

Gaidar and the IMF can say "poverty line." But, as every person in this room knows, 1,200 rubles or less per month means the inability to buy even the most basic essentials for biological survival. This fact was acknowledged by the U.N. Food and Agriculture Organization, in its report on CIS [Community of Independent States] food imports, released Oct. 14, when the FAO declared that 12% of Russia's people (which, by the way, is considerably more than Gaidar's 12 million, or approximately 18 million) have an income too low to buy even basic foods. To use the FAO data, these 18 million people in the Russian Federation are not simple "poverty" victims. Unlike the lying Gaidar, the FAO used a higher realistic monthly wage than the Gaidar 1,200 rubles. In today's Russia, one can't survive on 2,000 rubles any more than one can on 1,200. These are 18 million people who could die, and many will, once their savings and other means of supplementing incomes disappear, and their sole means of existence becomes this 1,200-2,000 rubles per month.

Thus, after only eight months of IMF "shock therapy," some 18 million Russian citizens are in a potential death pool if present policies continue. This is only the extent of the tragedy concerning the Russian Federation.

As the FAO report reveals, the tragedy is worse in several other republics. The FAO states, correctly, that Armenia, Georgia, Tajikistan, Turkmenistan, and populous Uzbekistan all depend on imports for more than two-thirds of their grain consumption. The FAO report only covers the CIS members, and thus omits the drought-caused grain harvest disaster in the Baltics this year. The Lithuanian grain harvest was some 1.5 million tons, compared to 3.3 million tons in 1991. A similar fall occurred in Latvia, and in Estonia grain harvested fell from 930,000 tons in 1991 to 400-420,000 this year. . . .

The best yardstick to show the collapse of purchasing power is to compare 1985 with the present. What was bought every month for 150 rubles in 1985, would require 15,000 rubles today. Thus, prices of goods and services used regularly have risen since 1985 by about a hundredfold. The price of non-food consumer goods has gone up far higher, as this price index includes items such as urban transportation, which has increased only twentyfold, and basic food items which have also increased far less than a hundredfold. Wages in the same period have risen to perhaps 5,000 rubles per

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month, and there are many well below this figure. Thus, in the most optimistic portrayal, with a 5,000 ruble per month wage, the Russian market, as measured by purchasing power, is about one-third the size it was in 1985.

This discrepancy between the rise in the price of agricultural products for human consumption, and other goods—in this case, those purchased by farmers for the harvest—has created another serious food problem, threatening to become a catastrophe. To alleviate this problem, farmers have increased to the very limit of not only urban consumer market capacity, but also of refrigerated meat storage capacity, their sale of livestock, as meat is the best money-maker for the farmer.

The result in 1992 has been a decimation of herds in Russia, Ukraine, Belarus, the Baltic republics, and presumably elsewhere too. By next spring, the size of herds in the former Soviet Union may be 25% less than one year earlier. The enforced export of meat, under IMF "export-earning" conditions familiar earlier in Harvard economist Jeffrey Sachs's "Polish model," is now sweeping the Baltic republics.

The most tragic case, per capita, is Lithuania, with 3.5 million people. Lithuania has tried to emulate Estonia and Latvia, by implementing IMF demands so as to qualify for loans. The IMF specified, under the demand of "earning a trade surplus" through exports for hard currency, that livestock become a prime export. The demand was enforced through the muscle of a credit embargo which prevented Lithuania from importing desperately needed feed grain for its herds. The country was confronted with the cruel choice that comes from playing IMF "rules of the game": Export the herds or see them die. Last month, the Lithuanian Agriculture Ministry was forced to approve the export of 500,000 head of cattle, including 283,000 dairy cows, 700,000 pigs, and 4 million chickens.

The Oct. 25 devastating electoral defeat of the ruling Sajudis party and President Landsbergis should serve as a lesson for the political consequences of bowing to the IMF.

Now, back to the Russian case. What is Russia getting from the IMF for all these sacrifices and potential mass murder of parts of its citizenry? The $24 billion that never came and never will, was reduced to $1 billion which actually arrived. Nothing else will arrive this year, and for 1993, anywhere from zero to perhaps a few billion, but only if shock therapy continues. As for all the other former Soviet republics, they have, even in nominal terms, received either zero or next to zero. . . .

While Russia received $1 billion, it is losing up to $15 billion by the end of this year through the unpaid interest on the former Soviet debt being added to the outstanding principal, and the drawing on unused parts of former, pre-August 1991, credit lines. This growth in the former Soviet debt, from $64 billion at the beginning of this year, to as high as $80 billion by year's end, is the estimate given earlier this month by Deutsche Bank, which leads the consortium of the former U.S.S.R.'s private creditors. . . .

I would like to close with brief reference to three other examples of IMF shock therapy: former Yugoslavia, the Czech and Slovak Federated Republic, and Bulgaria, all of which are, or were, multi-ethnic societies in contrast to very ethnically homogeneous Poland.

Former Yugoslavia

Former Yugoslavia was the original shock therapy "patient" in eastern Europe, advised by the same Jeffrey Sachs. It would be wrong to identify IMF shock therapy as the sole cause of the war in former Yugoslavia, but it was the main factor making the difference between peaceful separation and war. Under non-shock therapy conditions, Yugoslavia could have moved toward a loose confederation, eventually toward independence for the former constituent republics, but under an Economic and Customs Union, like a miniature European Community. Shock therapy ensured war. How?

The answer lies in the West-East prosperity-poverty divide that cut through former Yugoslavia, with the more prosperous western republics of Slovenia and Croatia, and the poorer eastern republics, of which Serbia was the largest. Under shock therapy, Yugoslavia was ruined by the same hyperinflation that has been destroying Russia nowadays, and the implementation of IMF demands to stop subsidzing "unprofitable" enterprises caused unemployment to rise to more than 2 million, or over 20% of the work force. The Yugoslav federal budget was drastically reduced, again under IMF demands, so that the "war" between Serbia and the two western republics of Slovenia and Croatia really started then, not in July or November 1991. The Serbian leadership attempted to compensate for the IMF looting of Yugoslavia by increasing the taxes and other payments to the Belgrade center by the richer republics, i.e., an economic rape of Slovenia and Croatia, to the point where these republics had everything to lose and nothing to gain by remaining in the Yugoslav Federation.

What had been before the late 1980s a slow process of separation, which could have been orderly, became an avalanche. There are lessons in this for the former Soviet Union where, even though, in formal terms, the separation into independent republics has taken place, still through devices such as the ruble zone and the two-tier system of commodity pricing, etc., Russia is trying in part to emulate the Serbian approach, to compensate for its own shock therapy losses by looting its neighbors through unfair pricing mechanisms and other means.

Czech and Slovak Federated Republic

A similar lesson for the former Soviet Union can be seen in the last days of Czechoslovakia. Here, shock therapy was implemented by C.S.F.R. Finance Minister Vaclav Klaus, though in such a way that the brunt of two years of vicious

austerity fell on the Slovaks. In short, under the Klaus formula, the IMF was served by keeping the Czech part fairly stable, through the triage of Slovakia. In the Czech part, unemployment has been kept below 5%, whereas in Slovakia, it is at 12% and climbing. Ninety-five percent of all foreign investment sent into the C.S.F.R. since Jan. 1, 1990 has gone to the Czech area. The triage of Slovakia has created the economic basis for inter-ethnic conflict within Slovakia, against its 600,000 Hungarians and other minorities.

Bulgaria

Finally, let me mention Bulgaria, the country which has been praised by the IMF as representing the model of "success." The criteria defining "success" are that Bulgaria has moved in 1992 into a hard currency balance of trade surplus, and probably a surplus in the non-trade portion of the balance of payments. These criteria are for the IMF the most important, as they define a mathematical "capability" to repay debt. By July 1, 1992, some $1 billion in foreign exchange reserves, plus $350 million in gold reserves, had been accumulated—these are the figures provided by the Bulgarian National Bank report on the Bulgarian economy after the first half of 1992. In September, Bulgaria announced that it was resuming debt repayments, suspended in March 1990.

As in the case of the former Soviet Union, the debt of the communist era was not frozen, but kept growing during the period of payment suspension, rising from $10.2 billion in 1989 to $12.2 billion this year. . . . On a per capita basis, if the debt of the former Soviet Union were as high as Bulgaria, it would total $360 billion.

In the first half of 1992, industrial production fell 23% and the sale of industrial goods fell by 14.4% compared to the 1st half of 1991. . . .

By September 1992, unemployment had risen to 530,000 or a 13% rate, compared to 10.1% at the end of 1991, and only 0.7% in 1990, before shock therapy began. . . .

The country is close to a social explosion, and the prospect of a winter of hunger has already sparked an attempt at a mass exodus of the ethnic Turkish minority into Turkey, an exodus that ended abruptly after Turkey demonstrably closed its border to its ethnic kinsmen. The closure of the refuge safety valve for this large minority of 900,000, or 10% of the population, has created the basis for an inter-ethnic and perhaps, later in this decade, international conflict, directly attributable to IMF shock therapy.

In conclusion, with the IMF as with communism, success is based on the ability to rule through an ideology, backed by the barrel of a gun, or analogous power instruments, such as credit and trade embargoes. However, if the absurdity of a Moscow "center" ruling over a large area of the Earth could be terminated, then there were no objective reason why the financial elite of two countries, namely Great Britain and the U.S.A., should employ the IMF to dictate terms that spell ruin to 160 sovereign nations.

The LaRouche plan for economic revival

by Dr. Jonathan Tennenbaum

Dr. Jonathan Tennenbaum, president of the Fusion Energy Forum in Germany, has drafted development plans for Eurasia, based on LaRouche's "Productive Triangle" concept. In Moscow, he presented the method behind the programs.

It is perhaps superfluous to observe, that the kinds of radical economic reforms which the International Monetary Fund is trying to impose, are leading to disaster. At the same time, other schemes which are much discussed these days, including the so-called Chinese model and various forms of "restorationism" or "return to the old ways," are not going to work, either.

The alternative I shall present is based on the work of Lyndon LaRouche. It is not a magic formula or an administrative mechanism falling down from the sky, but a method of thinking about economic and scientific problems. Actually, it is not completely new, but has a long tradition going back to Leibniz, Hamilton, Carey, List, and other figures who were responsible for building up most of the successful industrial economies in the world. I would add the circles of Count Sergei Witte and Dmitri Mendeleyev, who were relatively successful in launching the modern industrial development of Russia beginning in the late nineteenth century. This current of economic practice continued to be expressed, although in weakened form, in certain of the policies of French President Charles de Gaulle and U.S. President John F. Kennedy. LaRouche has revived the whole conception on a higher level, while adding new features which are indispensable for dealing with the present crisis.

Briefly summarized, LaRouche's approach centers on the use of credit generation by a newly organized National Banking System, to promote a high rate of technological improvements throughout the productive sector of the economy. In the present situation in Russia, Europe, and Eurasia generally, the only effective way to accomplish this is by a rapid, large-scale development of physical infrastructure. . . .

LaRouche put forward his proposals not as an answer to the problems of any particular nation, but in response to the crisis of the world economy as a whole. He pointed out, back