

outflow, so there was no need to increase the interest rates. Rather, they came down. Small businesses were not burdened by high debt; people were able to borrow. Companies like mine would not have survived had it not been for the exchange controls. As a result, the whole economy is now moving up. From rates of 6.5% negative growth last year, the rate of growth will be positive this year, located between 1% and perhaps 3% this year. So, the IMF must cover its face with shame. They must go to the corner.

Some say, however: “What’s the big deal about this?” Thailand, Indonesia, Korea, and others, too, are coming out of the crisis with the IMF policies. The difference is that we have kept our sovereignty and we stopped social unrest. Look at all the problems of social unrest provoked by the IMF in Indonesia, where even the President was forced to resign. In Korea, there has been huge labor unrest; in Thailand, foreigners came and bought up the best assets.

The moral of the story is that even small countries like Malaysia, with 20 million people and 17th in the list of international trade, could stand up against the IMF, against the speculators. We learned the lesson, that there are evil, powerful forces which will destroy national sovereignty. Although we are poor and weak, there is hope if we unite. The North and the South must fight together against speculators, and support initiatives like that of ATTAC in France. The North and South are not separate. There is no single solution; we need a new order, and new ideas, like those of Lyn and Helga LaRouche. Dr. Mahathir has said that he wants to liberalize, but that we need controls until there is global international monetary reform. We cannot relax our exchange controls if there is no progress in the international monetary order, because all that we have built so far could be destroyed in one night if we did.

We need a development philosophy for a Survivors’ Club. As Lazare Carnot said, we must have a philosophy beneficial to all people. Dr. Mahathir is building a “smart” partnership, including businesses, trade unions, consumers, producers, and the government, in an alliance. This is a “win-win” situation. There is so much potential for development—just look at the Eurasian Land-Bridge, and the reconstruction program for Kosovo and the Balkans as a whole.

If you stand up with courage and resist your attackers, then in the end, with God’s help, we shall overcome.

Let me add, since I have been asked to comment on this, a few words about the visit of the U.S. Vice President [last November]. Al Gore was our guest, he had been invited to Malaysia, to attend the Asia Pacific Economic Cooperation Forum [APEC] summit in Kuala Lumpur, and he incited the Malaysians to revolt against their President. We have been too polite with him. He insulted the host country. And, although President Clinton is kind, please tell me, what he has done to speed up international monetary reform. [French President Jacques] Chirac, on his side, proposed representation of Third

World countries at the highest levels of consultation on monetary reform. Such reform is not the problem of the Group of Seven or G-8, but of the whole world, especially those countries where people earn less than a dollar per day. We should support our leaders when they do good, but it is your contribution to influence leaders to do good for mankind. If you do nothing, then you deserve the leaders you get.

Prof. Taras Muranivsky

On ways to overcome the crisis in Russia

The full title of Professor Muranivsky’s speech to the Paris seminar on May 26, is “On Ways To Overcome the Crisis in Russia, on the Basis of L. LaRouche’s Physical Economy.”

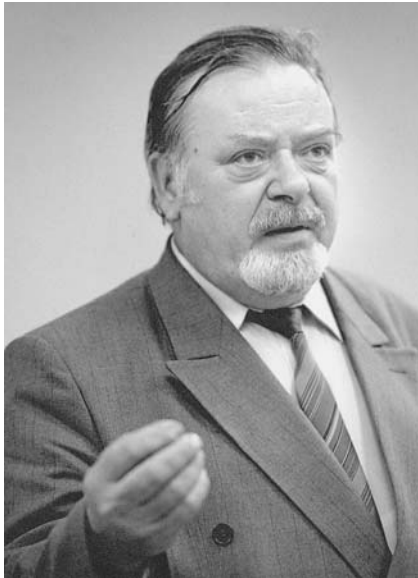
Economic science and practice have two aspects:

- universal economic postulates and principles that define the point of departure;
- their specific application to a given national economy.

Lyndon LaRouche looks at economics as follows: “‘Economy’ is not ‘economics.’ Economy is the relationship of man to nature, the relationship of man to the universe. It is man’s ability to survive. It means life expectancy, the cultural conditions of life, science, Classical art, and a high level of culture. That is the economy. And that is what we have abandoned. We have become poorer, significantly poorer, than ever before.”

Economic progress and the general progress of mankind require a complex approach to the development of the nation-state, as is demonstrated by the entire history of the development of human society.

Because I am going to speak chiefly about the problems of Russia, I want to stress from the outset, that the development of Russia from October 1917 through the present, has been very contradictory. There has been a mixture of successes and failures, tribulations (in war) and gross errors. There were unprecedented successes in the creation and development of the military-industrial complex, but the total divorce of these achievements from the civilian sector. We had the violence of a command-administrative system of management, and attempts to reform that system. Unsuccessful reforms in industry and, especially, agriculture, gave way to stagnation, which led to the slogan of “return to capitalism,” and many other problems—all this is the face of Russia’s development during this century.



Prof. Taras Muranivsky warns of the explosive situation being created by the IMF's continuing pressure on Russia.

It may be said, quite correctly, that the capitalist path was not appropriate for Russia, and that a return to capitalism is a bad idea. Despite the mistakes, miscalculations, there was what we call social justice.

The reformers, now bankrupt, did the greatest harm to Russia, but they do not admit it. They do not criticize themselves, but rather blame either the legacy of the U.S.S.R., or the recently removed Primakov government, which they called communist. In reality, the woes of Russia today are due to the “reformers,” who made it their business to prevent inflation and block large cash issues, while stepping up tax collection and arranging relations with the International Monetary Fund (IMF); but, their main error was the failure to strengthen the state. They tried to remove the state from the economy, entrusting everything to the “invisible hand” of the free market.

Their reforms had no place for people, even though it is well known how important the role of the enthusiasm of a population, which trusts its government, is for the development of the economy. Distrust of the authorities has become a major problem for us in Russia.

It should be said that reasonable goals were declared, such as the need to develop production, the need for social production, and promises to pay wages and pensions on time, but, in reality, all of these pledges remained empty words. Production collapsed, wages and pensions were not paid for months at a time, and so forth. But the main thing, is that the new leaders failed to take into account the real situation, and the social relations within our society. They acted according to the instructions of foreign, chiefly American, advisers, who poorly understood our affairs. The most odious of these was Jeffrey Sachs from Harvard University.

Generally speaking, the situation in Russia can be charac-

terized as follows:

1. There is no system of control over financial and monetary flows, which functioned not badly in the Soviet period. The market has been flooded with dollars and with securities, and quasi-monetary instruments have come into use as a medium of exchange by the constituent territories of the Russian Federation and by economic entities, as well as widespread barter.

2. Also functioning outside of any control is the “shadow” economy, which is estimated to account for as much as 50% of GDP. Resources within this sector do virtually nothing for the domestic economy.

3. The degree of corruption of the economy has reached a critical point. Corruption has created new mechanisms for the transformation of state resources into private capital. The liberalization of the market and removal of the state from the management of the economy creates conditions for corruption to flourish. State officials, and regional and corporate barons engage in corrupt practices.

Thus, money and power are brought together, creating something like the corporate state in Mussolini’s Italy.

In Russia under the reforms, state policy was totally subordinated to the independent policy of individual ministers.

Each person did what he wanted, while the ideologues of liberalization, like Gaidar, Yasin, Urinson, et al., argued that the market was doing everything. In reality, everything deteriorated.

5. During the reform years, the economic base of the state was turned on its head. Eighty out of the 89 constituent territories of the Federation became addicted to budget subsidies. As a result of privatization as looting, the state budget fell to unbelievably skimpy levels.

Russia in the vortex of the world crisis

The global financial crisis has passed through three phases. It is worth looking in more detail at the second phase—the crisis in Russia. Its peak occurred in August 1998. By then, Russia had turned into the weakest link of the world financial system. While the nations of Southeast Asia experienced economic growth right up until the outbreak of the crisis, and their currencies remained stable, and while Brazil (yet another weak point in the system) also maintained fairly high rates of growth (albeit only according to monetary measures, not with respect to the physical volume of production), and Japan, with all its financial problems, still has an excellent production capability and enormous scientific and technological potential, today’s Russia was appointed by destiny to be the fuse on the powderkeg that explodes the entire world economic system. The collapse of the real economy, the reduction of investment in production to a level insufficient to preserve productive capacities, the ruination of our scientific and technological potential, the collapse of agriculture, the miserable condition of infrastructure, the absence of normal

mechanisms for finance and credit, the fantastically low level of tax collection, and a state budget that functioned according to the notorious “pyramid” principle—all this created more than necessary and sufficient conditions for a crisis. If we add the illegal capital flight out of Russia, conservatively estimated at \$20-30 billion per annum, the participation of international “hot money” in speculative operations in Russia, including the government-created state debt pyramid, and the unsupervised status of the Central Bank of Russia, which engaged, according to some evidence, in short-term derivatives operations for commercial profit—we can only marvel that the first stage of the world crisis did break out in Southeast Asia, and not Russia already.

A partial explanation is the small relative size of Russia in the world economy, the barterization of our internal transactions, and the resistance to the colonial aspirations of the oligarchical forces. From the standpoint of global speculators, Russia was a riskier place from which to derive superprofits, in comparison with Southeast Asia, where it was possible to make money simultaneously from stock speculation, devaluation of the local currencies, and to buy up the shares of excellently functioning industrial enterprises, especially in South Korea.

Debt soaks up almost all revenue

The Primakov government [September 1998-May 1999] inherited an unrealistic budget and a huge overhang of domestic and foreign obligations, due in 1999. Suffice it to say that we have an unjustifiably low revenue side of our state budget, equal to approximately \$20 billion, while foreign debt service alone comprises \$17.5 billion in 1999. The government, once again, mistakenly sought to manage by seeking funds from the IMF.

The movement of the financial crisis in Russia into an acute phase clearly showed that the situation at the weak points of the world financial system is so explosive, that there will be one blast after another until the crisis encompasses the very oligarchical centers of the financial system—unless radical measures are taken.

After Aug. 17, 1998, real panic reigned on the Western markets. Western banks had invested very substantial funds in Russian government bonds (GKOs). The mass media in the West and Russia, which are controlled by the financial oligarchy, trumpeted about Western banks’ huge, instantaneous losses after Aug. 17. In reality, however, they derived huge profits from their games with Russian GKOs. Spending only \$18 billion to acquire GKOs, they came away with \$72 billion, which they exported from Russia.

Therefore, the Russian government’s recent negotiations about compensation for GKO losses are beyond comprehension.

Russia is also saddled with the debts of the former U.S.S.R., without regard for the fact that the West was issuing

credits during the 1980s for the purpose of destroying the U.S.S.R. and introducing Western “democracy.” Insofar as they yielded a political and ideological effect in the form of the proclaimed victory in the Cold War, these credits should straight away have been written off.

The financial crises in Southeast Asia and Russia changed the behavior of investors. Risk reduction replaced profit maximization as the main goal.

At a conference in Germany at the end of November 1998, American economist Lyndon LaRouche called the situation in the world financial system, revolutionary. Incidentally, it was LaRouche who had warned, much earlier, about the danger of a world crisis, giving powerful arguments in support of this forecast.

Today, international institutions such as the IMF and World Bank, the General Agreement on Tariffs and Trade, and the World Trade Organization, essentially carry out the political line of the financial oligarchy. The oligarchy’s interests drive the policy of cheap labor, of depriving national governments of the ability to conduct an independent economic policy, the destruction of national economic reproduction systems, the incorporation of developing and post-Soviet countries into a world system controlled by the oligarchy, the seizure of the commanding heights within these economies, the achievement of unrestricted freedom of action for finance capital, and the creation of conditions to move “dirty” technologies to these areas.

At the end of the 1970s, there was a shift in the development of the world economy, toward domination by the world financial oligarchy. This led to a tendency for the financial sphere to dominate the sphere of production, providing for the “golden billion” residents of the developed countries, to the detriment of the rest of humanity. Neo-colonialism was developed, while the role of the sovereign state was reduced, in favor of supranational structures, under the slogan of “globalism.” The accumulated infrastructure and industry in the developed countries, like the natural resources and cheap labor-power of the developing countries, are used to enrich and enhance the power of the financial oligarchy, which has no interest in bankrupting its own financial pyramid.

LaRouche: Save the people

L. LaRouche proposes an alternative: bankrupt the banks’ fictitious financial pyramids and extend massive support to the real sector of the economy. It is evident that this proposal has encountered the enormous power and furious resistance of the financial oligarchy, on top of serious technical financial difficulties.

There is much more to the proposals of L. LaRouche. Analyzing the recent destructive processes inside Russia, Brazil, and other countries, LaRouche emphasizes that the world situation as a whole has undergone fundamental changes. These changes affect all areas of international activ-

ity—financial, economic, political, strategic, military, cultural, and so on. Any attempt to separate political processes from financial, strategic, or military ones would be a grave error. The transformations, taking place under the influence of the crisis of the global system, are comparable with what physicists call “phase-shifts” in the state of matter, when, for example, water turns into ice, or vice versa. In a phase shift, all the properties of a system change at once.

LaRouche identifies three key factors which define these strategic global phase-changes. The first is the united efforts of the international financial oligarchy, centered in London and the U.S. East Coast, which are currently the “masters” of the situation. Appropriately, the French newspaper *Le Monde* called the haughty speech of U.S. Vice President Albert Gore, given Jan. 29 in Davos, “a declaration of war on the rest of the world.”

The second factor is the “subordinated party” in the current situation, represented by the European Community. The Europeans are suffering an unprecedented economic paralysis, most evident in the situation in Germany. The worldwide collapse of the real economy hit Europe harder than the United States. Europe landed in a situation, where, despite isolated optimistic statements by some political figures on the need for regulation of the world economy, it has no internal strength to fight.

The third factor is the Asian-Eurasian “survivors” bloc. Its center is China, but there is also considerable potential in Russia. This group also comprises Malaysia, India, and, possibly, Japan. These Asian-Eurasian countries are capable of surviving a global systemic crisis, if they apply “classical” dirigistic methods in sovereign national economies, developing the real material base, as well as mutually beneficial economic cooperation.

LaRouche sees any intensification of the control functions of the IMF and other supranational institutions as especially destructive for the world and national economies. He calls for a “most just financial system,” based on the development and equality of sovereign nation-states. Therefore, he has supported the Malaysian Prime Minister’s initiative for capital controls, and has recommended to the government of Brazil that it impose exchange controls and “support the productive national economy with cheap long-term credits.”

The 1950s through the 1970s knew a social policy, which could be called “competitive welfare,” whereas today this has been replaced by “competitive austerity,” i.e., attacks on the living standard and the rights of the working class, under the pretext of raising the competitiveness of domestic products on the world market. Globalization of the economy, on top of all its other negative consequences, means wage levelling and worsening conditions of labor.

We may face a general crisis of the world social and economic system, with significant further declines in production, mass unemployment, inflation, and financial chaos. Workers

in developing countries become the object of cruel exploitation by local and, particularly, foreign capital. The policy of creating cheap labor pools for “dirty” technologies undermines these countries’ attempts to bring their populations out of poverty. Domestic capital becomes increasingly oriented toward comprador and speculative activities, and hostile to labor.

Russia’s ‘honorary’ debt noose

For Russia, the world financial crisis has meant a severe deterioration of the external conditions for solving the internal crisis. Russia is repeating the path of the Southeast Asian countries, slipping on a debt noose. At \$150-160 billion, the foreign debt has created the “honorary” third place among world debtors (after Mexico and Brazil).

The debt destroys the integrity of our industry and leads to an enclave system of production. Unlike the nations of Southeast Asia, however, which did somehow manage to carry out some industrialization, including an electronics industry and machine-building, the Russian governments of Gaidar, Chernomyrdin, and Kiriyenko persisted in a policy of deindustrialization. The volume of industrial production in Russia fell by more than half during the years of reform. Moreover, its center of gravity increasingly shifted toward the extractive industries and primary processing, while the latter was increasingly for world market requirements, rather than feeding into domestic chains of technology.

To justify this policy, the reformers employed two myths:

1. Our only profitable industries are the extractive industries. To prove this, they estimated the value of all national economic production, using world prices.

2. The world market is like a faceless machine, which balances supply and demand in accord with the principle of comparative advantages, establishing prices that correspond to optimal national economic proportions for all countries, including Russia. That is, the world market develops a measure of value, by which Russia should be guided during the structural reform of its economy.

Under conditions of intensifying domination by the financial oligarchy, however, the world market cannot serve as a standard of value. Instead of real costs and supply and demand relationships, political considerations increasingly take center stage. The price of oil is determined by political decisions. Prices for natural gas and electricity are regional, rather than world prices. Fluctuations in currency rates and the price of labor power affect the competitiveness of goods that are produced.

None other than Ye. Gaidar, when he was economics chief for *Kommunist*, the journal of the Central Committee of the Communist Party of the Soviet Union, quite correctly observed the consequences of the Soviet Union’s dependence on foreign currency earnings from exports, which had become evident after the steep collapse of oil prices in 1986. This did

not, incidentally, deter him as Prime Minister from basing his economic policy on fuel exports.

Prospects for the future: dangers and forecasts

For the longer term, certain dangers need to be anticipated. Reduced growth rates in the developed countries will lead to worsening conditions for raw materials exports. The possibility of attracting foreign investors will likely decline, and their terms will become tougher. It will become more difficult to place federal and regional securities on the world market. The collapse of the stock markets, under conditions of growing financial difficulties for the federal government, will foster a tendency to sell off still more state enterprises and natural resources at giveaway prices, and their acquisition by foreign capital. The world financial oligarchy's attempts to exploit Russia's resources, as a counterweight to inflationary pressures from the pyramid of fictitious capital, will intensify.

Measures for counteracting these unfavorable tendencies should entail a reduction of Russia's orientation toward the world market and foreign capital investment, and more attention to the search for internal resources, while the center of economic policy should be shifted from financial stabilization to economic growth and technological retooling.

We need protective measures, to prevent the purchase or acquisition, as compensation for debts, of Russian land by foreign capital. There should be no further commercialization, disintegration, or transfer to foreign capital of Russian infrastructure networks—the rail and pipeline systems, electricity supply, communications, and so on. Foreign borrowing by regional governments must be brought under strict federal control.

Radical measures are needed, to clean out the financial pyramid and rescue Russia from debt slavery. It is not the right time to permit foreign banks and savings operations to do business with the Russian population.

There were also, however, some favorable tendencies in the wake of the ruble devaluation of Aug. 17, 1998. In the fourth quarter of 1998, Russia experienced a tangible increase of industrial production, especially in the food industry, machine-building, and chemicals and petrochemicals. The fact that this reflects not merely inflationary effects, is confirmed by the increase of production of some important products, expressed in physical units. Among these were light automobiles and trucks, buses, refrigerators and freezers, washing machines, television sets, vegetable oil, vodka and liqueurs, and groats. There was notable growth in the production of goods for domestic consumption.

These achievements, however, did not prevent President Yeltsin from firing the Primakov government.

The growth of production could become an impetus for an economic upswing, on condition that it be maintained by means of productive investment and the growth of effective demand. The skimpy budget is a serious obstacle. But, an

even greater threat comes from the IMF's continuing pressure on Russia, aimed at forcing it to continue a harsh monetarist policy.

Greetings

López Portillo: Listen to LaRouche

The following message of greetings to the Paris conference from former Mexican President José López Portillo, was transmitted by Ibero-American Solidarity Movement (MSIA) president Marivilia Carrasco.

Lic. José López Portillo
Mexico, D.F., May 25, 1999

Mrs. Helga Zepp-LaRouche

To the participants in the Seminar for a New Bretton Woods, gathered in Paris, France:

In December 1998 I had the opportunity to share the podium with Mrs. Helga Zepp-LaRouche at an event held at the Mexican Society for Geography and Statistics, in Mexico City. On that occasion, after listening to Doña Helga's presentation, I commented on how important it is that someone in the world is thinking on behalf of everyone, and is opening doors, and that they enlighten us as to what is happening, as to what will happen, and as to what can be corrected. I also expressed my wish that, hopefully, her husband can influence the government of the United States, so that the proposals that she presented, can, in some way, be realized.

After reading the proceedings of the intense and fruitful dialogue, exchange of ideas, and presentation of points of agreement and disagreement, which occurred on April 21 at the Bonn-Bad Godesberg gathering sponsored by Lyndon and Helga LaRouche, I am pleased that such an opening of doors is growing in intensity, frequency, and scope.

Today, when, at times, it seems that the worst threats to the peaceful coexistence among nations are becoming reality, it is yet more urgent that efforts be redoubled to open the way for good sense and sanity, and for the encouraging idea of the development of justice, in which peoples can express their peculiarities in culture and in all possible regards. From afar, I share with you the concerns of the moment and, as I stated a half-year ago: It is now necessary for the world to listen to the wise words of Lyndon LaRouche.

I wish you the greatest success in your deliberations.
José López Portillo