

Policymakers deeply split over western policy toward Russia

by EIR Staff

One would never suspect it from the accounts of the corrupted U.S. mass media, but Vice President Al Gore's Dec. 16, 1993 attacks on the International Monetary Fund "shock therapy" for Russia (which he delivered from Moscow), reflect a deep-going split in the establishment in the United States and Britain on these questions. Although a fanatical pro-IMF shock therapy faction holds commanding positions in major media, Harvard University, and some other locations, a large part of the establishment (whose views are reflected in think-tanks and governments) has come to realize that "shock therapy" and "radical free-market reform" are counterproductive, opposed to U.S. interests, and even constitute a security threat to the United States, as indeed they do.

This latter view will inevitably triumph, because the IMF policy is totally incompatible with reality. Witness the fact that the Russian politician whom pro-IMF U.S. Treasury Secretary Lloyd Bentsen praised and met with in Moscow—Deputy Prime Minister Yegor Gaidar—was dumped from the government as soon as Bentsen left, while central banker Viktor Gerashchenko, whom Bentsen snubbed, remains in power. The IMF faithful are like a splinter religious group which takes to the mountaintops to greet the promised end of the world, and then, after the promised day passes without incident, forecasts a new "Rapture" day to go up into the mountaintops once again. The longer any nation follows their recommendations for so-called economic reform, the deeper the plunge into poverty and chaos. Reports from Russia say that a growing one-third of the population is now below the minimum income needed to survive.

The sort of hysteria, of obsessional denial of reality, seen in the western "shock" enthusiasts, is familiar to anyone who has worked with actually bankrupt businessmen who refuse to declare (or admit) bankruptcy. The yuppies of the Morgan group, Goldman Sachs, and the seven big Wall Street banks are totally in hock to the \$14 trillion "financial derivatives" bubble, now on the verge of a blowout. They can only sustain that bubble from day to day through Michael Milken-style asset stripping, which, in Russia, they carry out under the name of "shock therapy" and "radical free-market reforms." They refuse to admit any reality—like the fact that the IMF

policies have brought Third Rome Russian imperialism to the fore again in Russia—which would conflict with the looting they require to pull their bankrupt firms through just one more day.

One view from Chatham House

Speaking for those in the establishment who have seen through the "emperor's new clothes," an international economist at London's Royal Institute for International Affairs (also known as Chatham House, to which Henry Kissinger owes his allegiance) told a journalist in early January that a change in U.S. policy "will be necessary to head off the political support that the nationalist right have obtained—because that is really a bottom line—a security threat to American interests.

"I think that it would be quite a gamble to argue 'full steam ahead!' with the IMF reforms now," he said. Even if Clinton were to side with the pro-IMF faction at his Moscow summit with Yeltsin, "he may well find that he's forced to shift tack quite soon."

The entire Russian work force, especially the military-industrial sector, are against the IMF reforms, he said. The Russian elections "weren't a vote for Zhirinovsky, but a vote *against* the consequences of rapid market reforms, especially the rapid shedding of labor in huge industrial enterprises taking place under the Gaidar program." Yeltsin himself, he said, "has already decided to make some changes in government, possibly demotion of Gaidar and others. . . . That in itself would signal quite a change. . . . So potentially there is a watershed, and the ability to proceed with this pace of economic reforms is in doubt."

But this is not the uniform or even necessarily the majority view at Chatham House. A Russian political expert there said that it is general policy at Chatham House that IMF-style reforms should not be pushed too far ahead, or else there will be a dangerous backlash. However, there is a split between the economic and political specialists. The economists, having been trained in free-market economics, tend to want more IMF-style reforms than do the political specialists.

From the U.S. Senate, Minority Leader Bob Dole (Kan.), presumed to be the front-running Republican candidate for



Vice President Al Gore. His criticism of the International Monetary Fund's policies toward Russia signals a raging debate among Anglo-American policymakers.

President in 1996, first criticized "shock therapy" for Russia in an Oct. 3, 1993 television interview. He greeted Gore's and Clinton's December remarks to the same effect with a Dec. 21 press release, entitled "Dole Applauds Administration Reassessment: Time for Less Shock, More Therapy." However, Dole's Republican colleague from Indiana, Sen. Richard Lugar, the minority leader of the Foreign Relations Committee, who had provided Dole some support on this question last fall, turned around to endorse the IMF program in a recent interview with *EIR*.

On Jan. 10, on the eve of the Moscow summit, the Fund for Democracy and Development (FDD), an organization founded and led by former President Richard Nixon, gave President Clinton a report on "A New Strategy for U.S. Assistance to Russia and the Newly Independent States." The press release accompanying the study warned of "the danger of shock therapy-style economic reform and the reactionary threat to which it has contributed, the need for careful consideration of 'conditionality' in foreign assistance, and the importance that our assistance package be sustainable."

President Nixon endorsed its conclusions; his office said that he has opposed shock therapy since his trip to Moscow two years ago, when he met Boris Yeltsin and first established the FDD. The study appears to most reflect the views of the Carnegie Endowment's leading Russia specialist, Dimitri Simes, vice chairman of the FDD, and of former Secretary of Defense James Schlesinger, the chairman of FDD's policy panel and also chairman of Lehman Brothers. The FDD boasts several dozen other influential Americans on its boards and committees.

World Bank official: 'Clinton? So what!'

From the side of the financial derivatives addicts and "shock" enthusiasts, a senior World Bank official told *EIR* that it's irrelevant what U.S. President Clinton or Russian President Yeltsin think—in the end, Russia will have to come crawling to the IMF.

"The smoke signals we're getting is that the U.S. has already climbed back from the Gore-Talbott attacks on the IMF," the official insisted in early January, "and there is plenty of support for our point of view—leaning more towards stressing to Russia the need for continued reform." He bragged that long-time World Bank Chief Economist Lawrence Summers, now assistant treasury secretary for international affairs, was acting as an IMF agent.

Told that President Clinton would, however, be forced to face reality once he got to Moscow, the banker just laughed. "So what? So what if Clinton says that?!" he chuckled. "I'm sorry, but I think too much attention is being focused on what Clinton says to Yeltsin about the reform process! I'm sorry, but I can't help myself, ha-ha! We international institutions work with governments, and governments go through phases," like an adolescent, he said. "Governments come—and go! They fall sometimes—but we're always going to be there, working with them. So I'm not terribly worried about what Clinton says or does not say. . . . Clinton will make some kind of a statement—and then everybody's gonna go home!"

"The U.S. is not running the IMF and World Bank, you know!" he laughed. "Do you understand what I'm saying?" Once Russia decides how much shock therapy it will actually implement, he sneered, "We are the institutions, with our guidelines," which will then decide "when to provide assistance, when *not* to provide it, how much to provide, and so on. In the end, it's the Russian government's decision—and then it's *our* decision!"

A top aide to Lady Margaret Thatcher agreed, saying, "There is no question that the International Monetary Fund has more significance than the President of the United States with his administration's objections to shock therapy. It is true that the IMF and World Bank outweigh Clinton. Their reform is needed.

"Clinton said that he was not going to Russia with a check-book, but that he would try to free some of the money put aside in international institutions. The IMF and World Bank are crucial to stabilize the Russian economy and the country. There is no question that economic reform has so far not been successful. But, it is important to continue through with the reforms. If you are right, you must carry on no matter who objects. The West knows that the reforms are right."

Similarly, a source at the British Foreign Office said that Clinton will have to cave in to the IMF on Russia policy, just as he caved in to the Anglo-French entente on Balkans policy, when he gave up his plans to put a stop to Serbian aggression last spring.