January 1992 and concluded in October 1993, Gonzalez eventually forced Fed officials to reveal that, contrary to Greenspan's and the other officials' misrepresentations before the committee, there do exist transcripts of FOMC meetings dating back to 1976. The report "provides evidence that Federal Reserve officials planned to deceive and mislead Congress in their testimony at the Oct. 19, 1993 House Banking Committee hearing in regard to the inventory of transcripts at the Federal Reserve and that the officials carried out their plan at the hearing," the report states.

No grounds for secrecy

In a news release accompanying the report, Gonzalez wrote, "Once the public has the opportunity to read some of the . . . transcripts obtained by the Banking Committee, they will see that the Federal Reserve has no grounds for keeping this information secret. The reality is that by keeping its meetings secret, the Fed fancies itself as appearing all-powerful and all-knowing. Like the Wizard of Oz, the Fed tries to keep the curtains closed—to do otherwise would be to reveal that the person pulling the levers is a mere mortal after all. . . . The transcripts . . . reveal that in the 1970s, then Federal Reserve Chairman Arthur Burns decided to secretly make complete transcripts of each FOMC meeting even as he told the public and the Congress that the FOMC would no longer be taking minutes."

Gonzalez's release went out on the Dow Jones newswire, and was sent to the major newspapers in the many cities where the Fed has its branches. But, except for a small item buried in the back of the *Wall Street Journal* on Jan. 28, there has been no coverage in the U.S. press. Rather, *Fortune* ran a four-page article on Feb. 7 lauding Greenspan and the Fed for being "determined not to repeat the mistakes of the 1970s." More specifically, "just as generals are judged by whether or not their armies control the field when the smoke clears, Fed chairmen are judged by what happens to prices," *Fortune* decreed. This mantra of "price stability" has been used by virtually all press commentators to dismiss the issues raised by Gonzalez, conveniently defining the criteria for judging the Fed as holding inflation in check—obviating any consideration of the accelerating derivatives debacle and the physical economic depression. The complete lack of interest by the press in the scandalous attempt by the Fed to avoid public disclosure stands in sharp contrast to the feeding frenzy the media have engaged in over Zoe Baird, Adm. Bobby Inman, and the allegations over Whitewater.

The republic is ill-served by these whorish press pundits, but then, they are only aping the institution they so slavishly defend. "The function of the Federal Reserve chairman is *to lie*," LaRouche explained on Feb. 2. "That has always been the function of the Federal Reserve chairman—to tell lies. That goes with the job. This is not something he does only on Tuesday. It's something he does seven days a week—that is, if you ask him any question which seeks a truthful answer."

Chernomyrdin declares shock therapy is over

by William Engdahl

A preliminary outline of an economic policy for the controversial new government of Viktor Chernomyrdin in Russia was outlined at a recent international economics conference in Switzerland. In response to a question from *EIR* Jan. 29 at a press conference during the World Economic Forum in Davos, Prime Minister Chernomyrdin declared, "Russia will not backtrack to the old system. We must consolidate a market economy. But we say, 'No shock therapy.' Rather, we in Russia need, simply, therapy. We have seen the end in Russia of the period of what I call 'market romanticism.' "

Chernomyrdin's remarks were doubly significant, because they were delivered only days after the resignation of the last remaining "reform" advocate from the earlier Yeltsin government. Boris Fyodorov, the finance minister, left denouncing the Chernomyrdin cabinet, accusing it of irresponsible hyperinflationary policies which threatened even more chaos in Russia.

Behind the sometimes heated rhetoric of exchanges between members of the Chernomyrdin government present at Davos and western critics, including Harvard "shock therapy" guru Jeffrey Sachs and his Swedish monetarist business associate Anders Aslund, the first outlines of a Russian economic strategy began to emerge. From what was said, the following three broad areas of emphasis appear likely under Chernomyrdin.

The role of military industry

First, as indicated, the experiments since Jan. 2, 1992 with International Monetary Fund (IMF)-imposed "shock therapy" monetary policies are over. These policies, as numerous Russian delegates emphasized to *EIR* in private discussions, dictated freeing 70 years of state-controlled prices to "world market" levels in an economy in which a functioning market did not yet exist, as all production was still effectively under the state budget.

What Sachs prefers to ignore is that it was precisely his "shock therapy" recipe for immediate chaos which forced a desperate government and central bank over the past two years to print more and more rubles in order to provide the population with means to buy basic essentials such as food and fuel. When the IMF demanded that the Russian government of pro-shock therapy Vice Prime Minister Yegor Gaidar then slash state credits to industry in order to "stabilize" the budget deficit, huge state enterprises began to issue inter-enterprise credits to each other, simply in order to avoid social chaos of 40 million unemployed with no infrastructure of social security or unemployment insurance existing outside the framework of the enterprises themselves, which under the Russian system provide housing, health, schooling, and social services for its employees.

Chernomyrdin has begun to group a number of non-monetarist economists around him, including Shatalin and Leonid Abalkin, who had worked under the Gorbachov government to shape the "500-day reform" which was abandoned in favor of that of Harvard's Sachs with the transition to the 1991 Yeltsin government.

Second, in reply to a question from this journalist as to the possible role of the military industry, a disproportionate share of the overall economy of the former Soviet Union, in rebuilding basic civilian infrastructure, Chernomyrdin replied, "How to bring military industry capacities to work for this change is a major focus of my government. Already we have begun on a small scale in the past year or so. Russia's military industry has enormous potentials in human resources, technological resources. We will now increase emphasis on the transformation of these resources for changing the overall civilian sector. This is a very key issue for us." He referred to using military capacities, for example, to rebuild the country's delapidated railway transport infrastructure as one area of discussion.

Third, as Chernomyrdin's own background in Russia's enormously important oil and gas industry (as head of Gasprom and, earlier, the Ministry of Natural Gas, during the late 1980s) would indicate, he plans to concentrate efforts on upgrading the collapsing infrastructure of oil and gas both for urgent domestic needs as well as for export to earn needed hard currency. "We are pursuing programs with various western firms including European, for joint investment in helping rebuild our oil, gas, as well as nuclear energy capacities," the prime minister added.

A Hamiltonian credit approach?

According to First Deputy Minister of the Economy Yakov Urinson, for the first time since the Yeltsin government came to power in late 1991, Russia will also pursue a policy of some form of "directed credits" aimed at high-priority investment projects. "Credit will go to stimulate certain enterprises, and will be cut off to other non-essential ones," Urinson stated. He also indicated he expected the dramatic rate of contraction of industrial output, which fell 16% in 1993, to begin to stabilize later this year.

The dumping of the ill-advised IMF shock therapy policies in Russia is long overdue, and an absolutely necessary precondition for real economic reconstruction. This was underscored in the remark of Islam Karimov, the President of Uzbekistan, who stated to conference participants, "Shock therapy has split Russia apart. The surest way to boost the influence of Zhirinovsky in Russia would be to continue with such radical reforms as the IMF shock therapy."

But merely abandoning the ill-intended "shock therapy" is by no means sufficient to put Russia onto a healthy industrial and agriculture stabilization path. How the government deals with the country's huge monetary inflation will be a critical test. The IMF and western monetarists such as Sachs and Aslund demand that Moscow abruptly stop printing money to "solve" the problem of monthly price inflation of 20-30% at the end of December. Chernomyrdin himself acknowledged this as a priority problem in comments before the audience of 900 leading western businessmen on Jan. 30. "Russia's dilemma is that we must lay the foundations for a real market economy within the next 5-10 years or we will face political chaos, collapse, and a threat to international security," Chernomyrdin said. "The prophets of doom are wrong. The latter we will not allow. But our number-one economic difficulty at present is inflation. We are under enormous pressure to repay the 4 trillion ruble debt to industry and agriculture which has built up. But we realize this is a problem feeding inflation. Last year we stopped paying our workers wages for 3-4 months in a conscious effort to control this inflation. Now, in 1994, we have as a result these huge back debts to pay. We must pay them. And the outflow of capital must be stopped."

The problem of capital flight

Grigory Yavlinsky, one of the economists advising Gorbachov on the "500-day plan" in 1990-91, was less optimistic. "What the government has forecast, in my view will not happen. By spring we will have a resurgence of inflation, a stabilizing in summer, then, by the autumn harvest time, the government will again be forced to print money to ensure a harvest." He called for measures to stop the huge capital flight, which he estimated in 1993 to have been $15 billion, which was sucked out of the economy by local functionaries and mafias of regional party bosses into western banks. "The government can only stop this if it stops giving export monopoly preferences to select enterprises," he said.

Yavlinsky, who makes no secret of his ambitions to succeed Yeltsin as President, added, "We closed down our markets in the CIS, a serious mistake. We stopped our flow of trade, on insistence of the IMF. This has merely increased the monopolization inside Russia. Now we are in danger as well of losing our internal markets."

Perhaps the most appropriate summary of the situation in Russia was stated by former Finance Minister Boris Fyodorov who told conference participants, "I urge you in the West to not exaggerate recent events in Russia, because so far, nothing 'bad' has happened. You should wait before finally judging the Chernomyrdin government to see what they do." But the time for real results is becoming urgent.