

EIR

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The 'globaloney' is over!
Sanity may sink balanced budget drive
British plot vs. Turkey to stop land-bridge

**Russia's liberal reforms:
anatomy of a catastrophe**

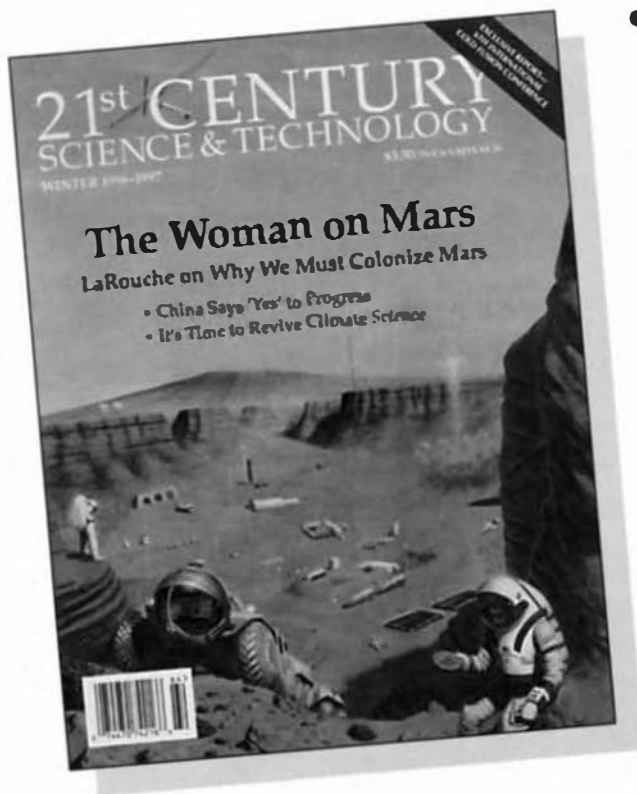


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From the Managing Editor

In the wake of Russian President Boris Yeltsin's October 1995 visit to the United States, Lyndon LaRouche identified the need to revive the U.S. strategic foreign policy outlook of President Franklin Roosevelt, to create a U.S. partnership with China and Russia to overcome the effects of the imminent collapse of leading world monetary and financial institutions (see *EIR*, Nov. 3, 1995, p. 70). Without such cooperation in creating a "New Bretton Woods" system, the power of the British Empire today, which is opposed to economic recovery measures as well as the sovereign nation-state, might not be challenged effectively.

Our *Feature* this week, Working Paper WP/96/014, prepared by Academician Dmitri S. Lvov, Dr. Valeri G. Grebennikov, and Dr. Victor E. Dementyev, of the Central Economics and Mathematics Institute of the Russian Academy of Sciences, and an introduction to the report by Lyndon LaRouche, presents the situation in Russia today. The authors show how far Russia has disintegrated under International Monetary Fund-dictated shock therapy policies, which, as LaRouche notes, were consciously designed to destroy Russia. And, the paper gives cause for optimism, that a policy-program for recovery, which, in the appropriate strategic context of the New Bretton Woods agreements, would restore Russia to a necessary positive role in the world economy, is at hand.

The report's authors and LaRouche both address the coming disintegration of the international financial system. LaRouche elaborates this further in *Economics*, "The 'Globaloney' Is Over," which is supplemented by a look at the German economy, and how the financial "elites" who met in Davos, Switzerland during Jan. 31 to Feb. 4, also realize that the systemic crisis is at hand. In the United States, LaRouche writes, people give blank stares when the term "depression" is used—because they associate that with bread lines—but, they recognize the decline of the physical economy when one uses the term "hard times."

And, we are in "hard times."

A growing mass-strike response to the depression is under way, which most recently toppled President Abdala Bucaram in Ecuador (p. 62), a topic which LaRouche also addresses in the *Editorial*.

Ronald Kokinda

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- Photo and graphic credits:** Cover, Guggenbuhl Archive. Pages 8-11, 20, 22, 32, EIRNS/John Sigerson. Pages 17, 18, 45, 51, EIRNS/Rachel Douglas. Page 59, EIRNS.

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Lyndon LaRouche introduces a working paper by leading scientists from Russia's most authoritative economics institution, CEMI. "For fully sane persons," he urges, "today's urgent question is: *What is the available alternative to the lunacy of continuing the present economic policies of the U.S.A., IMF, et al.?* In addressing the accelerating crisis in Russia, that question must be defined in a world-wide context, rather than a narrowly Russian context."

30 The path of Russian reforms

We are proud to reprint, in English translation, Working Paper WP/96/014, prepared by the Central Economics and Mathematics Institute of the Russian Academy of Sciences, documenting the failures of the "two ruthless economic experiments" in 20th-century Russia: "after the planning experiment, came liberal radicalism." The authors show that Russia has the potential to become a leader in a "a way of life, and the corresponding organization of production and consumption, which can be expressed with the formula 'society of spiritual and physical health.' "

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The 'globaloney' is over!

by Lyndon H. LaRouche, Jr.

Feb. 12, 1997

Back in the years 1989-1992, when "Thyroid Storm" wracked Washington, President George "Trilby" Bush declared himself virtual emperor of the world: at the direction of Margaret "Svengali" Thatcher. No more Soviet empire; nation-state not needed! Would-be "Lord of the Flies" George, and his playmates, called it "a new world order." Saner voices called it "globaloney." Then, came New Years 1997; the "globaloney" is over. No more "new world order." At least, no new world order as the Emperor George had imagined it.

Take the case of Germany, whose population today is in the same range as on the day George Bush's daddy, Prescott, switched around the Harriman-controlled funds in German banks, to bring Adolf Hitler to power. As Rainer Apel reported in last week's issue: Two weeks ago, Germany's employment office reported unemployment had reached the same numbers as Great-Depression years 1932-1933. Germany's actual level of unemployment is about 50% higher than officially reported, and zooming upward.

Meanwhile, as *EIR* has been reporting these events, during the recent several months' editions, an ominous wave of political mass-strikes has been building up: France, Belgium, Greece, Serbia, Bulgaria, South Korea, Albania, and, in this week's edition, the tell-tale fall, on Feb. 9, of the would-be Newt Gingrich of Ecuador, current ex-President Abdala Bucaram. In Germany, political strikes are also on the increase, as the savageries imposed under the Maastricht treaty threaten to end the nearly fifteen-year reign of Chancellor Helmut Kohl. Meanwhile, as shown in a Russia Academy of Sciences report, published in this present issue of *EIR*, Russia is a political bomb ready to explode.

Not only is the Second Great World Depression of the century fully on; like the 1930s, throughout most of today's world, the spreading, leading new phenomena are an overlay of political mass insurgencies against IMF, or Maastricht austerity, added to the already ongoing, increasingly powerful, waves after waves of financial earthquakes.

Meanwhile, inside the U.S., a false, but temporary politi-

cal calm prevails on the surface. Underneath that deceptive calm, a massive political eruption is building up.

Life in 'hard times'

Until now, here, in the U.S.A., if *EIR* had used the word "depression" to describe the state of affairs, most citizens' abrupt, knee-jerk response would have been a glare of incredulity. Usually, that citizen's image of the 1930s Great Depression, is textbook photographs of long lines of grey-faced unemployed at open-air soup kitchens or shabby employment offices. Instead of "depression," try another word from the 1930s: *hard times*. With the change of terms, from "depression" to "hard times," a glow of recognition can be seen coming to the surface of the reflective hearer's facial expression.

Speak of the need for two to three jobs to support a household, and still to fall short of the real purchasing-power, in physical terms, of a household formerly living on one or one-and-a-half incomes, thirty years ago. Speak of the percentile of total after-tax household income taken by rent, or equivalent costs of home-occupancy. Speak of many added hours of costly commuting each week. Speak of costs of health-care, a life-and-death issue for many, and also, for many, the item in the family budget which drops the household below the welfare line. Speak of credit-cards loaded to, or near their limits, and all the other household debt, besides. Look at the decay of neighborhoods, or the "Potemkin Village" delusion which cloaks the economic reality of "gentrified" urban or suburban-"development" residential areas. Or, look at the accelerating collapse in quality of education at all levels.

These are "hard times." If the citizen is a pensioner, or approaching retirement, these are terrifyingly "hard times."

When did it begin? For many, it started about 1970, the time of the bankruptcies of both the Penn Central and Chrysler Corporation. It grew much worse during late 1971 and 1972, with the Nixon Administration's inauguration of those harsh austerity measures against working people, which were named officially "Phase I" and "Phase II." It grew worse about the time the government of Saudi Arabia exposed the efforts of the London petroleum cartel's U.S. Secretary of State,

Henry Kissinger, to bring about the great oil-price hoax of the middle 1970s: under the impacts of artificial shortages of fuel, and prices suddenly jacked way up, real incomes of farmers, factories, and most ordinary working families dropped, suddenly, by a large margin. It grew worse, rapidly, especially for farmers, under David Rockefeller's and Zbigniew Brzezinski's President Jimmy Carter.

Carter's October 1979 appointment of Paul A. Volcker as Federal Reserve chairman, not only set up the nation's Savings and Loan banks for the looting which bankrupted them under the terms of the Bush-league Garn-St Germain bill. It wrecked the U.S.A.'s role as an agro-industrial economy. The Bush gang's "junk bond" piracy of 1982-1987, plucked the meat from the U.S. economic turkey; the 1988-1996 "derivatives" swindle grabbed the remains of the carcass. The "derivatives" bubble has transformed the world from a collection of economies, into what France's Nobel Prize-winning economist, Maurice Allais, has fairly described as a *Casino Mondiale*, transforming yesterday's economists, accountants, and bankers into today's gangland-style "bookies."

As the fact has been documented in earlier editions of *EIR*: If we measure "market baskets" in the combination of equal relative qualities of useful physical goods, plus equal relative qualities of necessary health-care, education, and scientific services, the average income of Americans, per employed member of the total labor-force, is approximately half what it was thirty years ago. Thus, two to three jobs are required today, to bring the family income up to something less than the standard of living which a comparable household achieved with one to one-and-a-half incomes thirty years earlier. This downward trend has been consistent, tending to accelerate greatly since 1987. Overall, since 1970, the U.S. economy has been contracting, per capita of labor-force, at a rate in excess of 2% per year.

Since about 1991-1992, the lower 80% of the U.S. family incomes have been sliding downward and deeper, into what the majority of our adult citizens must recognize, on reflection, as "hard times"—increasingly "hard times."

The delusion of U.S. economic growth

During the 1996 U.S. election-campaign, the joke was, that when President Clinton announced that so many millions new jobs had been added, the ordinary working-man with the loud voice, announced from the balcony: "Yes, and I am working three of them."

This plunge into "hard times" did not happen yesterday. Think: What is different about today's U.S. economy, as compared with the "hard times" of sixty-odd years ago? The differences lie chiefly in three factors of financial life and employment: 1) Access to a relative abundance of high-priced consumer credit, as typified by blown-out credit-cards; 2) As will be documented in the next issue of *EIR*, the involvement of nearly 40% of U.S. households in the high-risk mutual funds market, including households within relatively lower middle income to lower income-brackets; 3) The use of the

monetary inflation created by wide reliance on high-priced loose credit, to create the market for a large ration of essentially "make-work," non-productive employment in the category of clerical and other unskilled services. Most Americans are going deeply into a high-priced debt, which, the saying goes, "they can ill afford," simply to pay one another for taking in each other's washing. The risk to those in the lower 80% of income-brackets is savage.

In addition to straight gambling of assets they can not afford to risk, on mutual-funds, a very large portion of the nation's pension funds are tied up in either very high-risk, or other risky financial-market ventures. Given, for example, the growing number of expert forecasts of a likely 20-30% drop in the U.S. and international securities markets, soon, the more highly leveraged investments in those markets could be wiped out by such a drop, while related nominal holdings of that sort would be savaged, if not wiped out altogether. In a collapse of the "derivatives" bubble—the looming "Big One"—all, pensions, and much else, would be vaporized. By all traditional standards of financial prudence, Americans in the lower 80% of income-brackets have no business risking their pensions and other savings in such high-risk markets.

Nonetheless, many take that risk. Their argument is, that they "can not afford" not to take that risk; they "could not afford" to invest in, for example, much safer, lower yield U.S. Treasury securities. The fear invoked by perceived necessity, is father to the wish. The fearful wish, in turn, is father to the delusion. The financial bubble is zooming near to the bursting point? "That's good; my investments are booming!" Showing a friend how they are able to borrow against their mutual fund investments, they wink: "Believe me, I don't know how I would get by without it."

There is an additional, crucial factor which prompts today's U.S. citizens to tend to blind themselves to the economic reality of their situation. There has been a fundamental change in values, from the generation which experienced the Great Depression of the 1930s, to the generations of adult Americans between 21 and 55 today.

As the so-called "Baby-Boomer" generation, has come to replace World War II veterans in the top-most positions of government, finance, production, and universities, the entire nation is suffering the impact of that switch, away from a productive, to that "consumerist" and "neo-Malthusian" outlook, which was embedded in the majority of the university population of "Baby Boomers" during the middle through late 1960s. These induced "cultural-paradigm shifts" of the 1960s, have been established as the hegemonic matrix for opinion-making, throughout most of society's institutions and population-strata today.

Most World War II veterans, and their parents, grandparents, and great-grand-parents—all the way back to President Abraham Lincoln, and to Benjamin Franklin, earlier, defined reality from the standpoint of production. Leading electronic and print news- and entertainment-media, political candidacies, and so on, show today's U.S. opinion tending

toward Nazi philosopher Martin Heidegger's, and his lover Hannah Arendt's existentialist standpoint. It is the standpoint of the "me generation," which, like Heidegger, conceives of the individual as a kind of alien to society, "thrown" unwillingly into that hateful jungle, which is society. "My desires, my consumption, my possessions, my body, my opinion," color every experience with a literally pathological, existentialist fallacy of composition.

We should not be surprised, therefore, that Nazi Heidegger, his adored proto-Nazi forerunner Friedrich Nietzsche, radical conservative Friedrich von Hayek, and kindred existentialist types, are the preferred assortment of thinkers from among which to choose, within the philosophy curricula of universities and community colleges today.

The typical American, prior to the 1960s "paradigm shift," thought in terms of the necessary conditions for society's production of those products and services which were essential to family household and local community life. At least sixty percent of the labor-force was employed in "blue-collar" production operations. That American thought of himself, or herself, as both a producer and a consumer.

The 1960s radical youth-counterculture accomplished a mass-indoctrination of university and other youth in the lunatic view, that there existed a deep moral conflict between a class of predators, known as producers, and the white-collar, or unemployed classes, and the young children, which the producers allegedly "exploited," through playing upon the "victim's" sense of needs. Scratch one of today's "consumerists," and, often, the legacy of that 1960s radical youth-counterculture shows, beneath today's veneer of politically-correct social dogma.

That generational shift, from a productive, to a consumerist outlook, does much to account for the fact, that, up to a certain point, the suffering majority of the population will continue to tolerate, and even support the policies which have brought these increasingly cruel "hard times" upon them. A population which thinks from the standpoint of production, will look to increasing production, or increasing the productive power of labor, as the means for overcoming want, or increasing strength to resist other kinds of threats to national security.

However, the increasing eruption of political mass-strike ferment, inside Europe and elsewhere, demonstrates afresh, that there are limits to the ability of even deeply ingrained ideologies to control mass opinion. Throughout modern history, political mass-strikes, whatever their particular form of expression, represent a condition in which a growing majority, or near-majority of the population has lost all confidence in, not established policies, but, more profoundly, the ability of those in power to make any policy which does not worsen an already intolerable state of affairs. In short, people have ceased to trust the institutions which govern them, as we see in the U.S. today in the rate of abstentions of eligible voters from the most recent national election.

In western Europe, as in Russia, the threat of political

explosions "from below" comes from the perception that those in power will willingly choose no policy less odious than that which is responsible for the existing, worsening pattern of grievous popular suffering. In western Europe, the goad to political mass-strike processes is governments' political suicidal stubbornness, in clinging to the Maastricht policy destroying those nations. In eastern Europe, it is the existing powers' stubborn submission to the geopolitically motivated, insane, "reform and democracy" dogma imposed by the Thatcher-Bush combination. Throughout the so-called "developing sector," the detonator of political mass-strike ferment, is the "IMF conditionalities," and kindred austerity measures.

All our readers are more than familiar with, and disgusted by that immoral agreement which has governed each and all of the League of Women Voters-supervised campaign debates. This has been an understanding reached on limiting the discussion to a listed of artificialized topics called "the issues." For the most part, the ostensibly approved selection of "issues" has no relationship to the realities of the nation's economy, foreign relations, or much of anything else important. The result is much passion expressed on the kinds of topics better relegated to the mythical sages of Jonathan Swift's fictional floating island of Laputa. The usual debater's point proffered by candidates in such debates, falls into the same general class of unreality as the doomed Queen Marie Antoinette's fabled, "then, let them eat cake."

When, under conditions of persisting, worsening, existential qualities of crisis, a government, and its leading political figures and parties, cling stubbornly to such irrelevancies as "the issues," the resulting despair may prompt a sorely frustrated, desperate populace to see no remedy but to rid itself of such political institutions. In such a crisis, when government will not bend, it will be broken. The eruption of rising waves of political mass-strikes, is the last warning, before desperation takes command. The next act in that drama, will bring dictatorship, revolution, sheer chaos, or some combination from among such alternatives.

In a perceived general Depression, or similar general calamity, the impulse which arises from within the populace, is the demand that "government do something." The populace abandons its former, uneasy toleration for Thatcher-Bush "Globaloney," or a Gingrich attempt to eliminate the relevant powers of government "to do something." The world of 1997-1998 does not belong to the Bushes, the Gingriches, the Lotts; what is already visibly building up around the world, and also in the "boondocks" of our U.S.A., will soon bring to an end the recent utopian, mayfly fads of "globaloney" and the "neo-conservatism."

Admittedly, often, in recent history, the very word "Depression" has excited a dangerous sort of deep political pessimism in populations. The rise of fascism to power in Germany was made possible by such Depression-caused moods. The crucial political, and economic question now, is: How do we take such terror out of the word "Depression"? In recent U.S.

history, the relevant word for optimism is “Franklin Delano Roosevelt.” Modern history shows, that there is always a road to economic recovery; the word “Depression” must be used, but it must be used as a way of saying, that the time has come to scrap those misguided policies which have led us down the road to this mess, and to adopt, instead, the appropriate economic-recovery program.

Therefore, the fight is between those who cling stubbornly to the policies which have caused this Depression, and those who are committed to scrapping failed policies, in favor of viable alternatives. There are no national recovery programs which do not depend upon returning to the role of the sovereign nation-state, and no international economic recovery, which does not require compacts among cooperating, sovereign nation-states.

Germany: The Great Depression of 1997

by Lothar Komp

The release of the latest unemployment figures on Feb. 6 has put Germany into a state of shock. Not since 1933 has Germany seen such high official unemployment. And not since the beginning of official unemployment record-keeping in the 1920s, has there been such a huge one-month jump in the unemployment figures. Unemployment hit 4.658 million in January 1997, an increase of 510,000 unemployed in one month—more than 10% higher than the previous month.

However, as will be demonstrated here, by taking into account the camouflaged unemployment, the demographic structure, and the structure of employment, the situation today is, in effect, even worse than that of 1932-33. Only one term can describe the present state of the German economy: depression. A depression cannot be fought by minor corrections, only by reversing its major causes. Three such principal causes of the 1997 German depression can be identified:

- The worldwide slump in productive investments, apart from some locations in eastern Asia, caused by the “pyramid scheme” inflating of the global financial system. Under these circumstances, an economy like that of Germany, fully dependent on the export of high-quality capital goods, cannot survive.

- The failure of the government of Chancellor Helmut Kohl to push through a great reconstruction policy for eastern Europe, as it was elaborated in the 1990 Productive Triangle program of Lyndon LaRouche, and the government’s imposition of a Weimar-style budget-cutting policy, as demanded by the European Union’s Maastricht Treaty: As the historical chance of the reunification was missed, the “Reconstruction East” degenerated into an “abortion” of the post-communist eastern German economy.

- The transformation of political, industrial, and banking leaders in Germany toward a globalist, neo-liberal (that is, free trade) outlook, thereby abandoning the traditional strength of the German economy: an excellent physical and soft infrastructure, as well as a technology-oriented *Mittelstand*. The *Mittelstand* were a success not because they did business cheaply, but because they maintained a high rate of technological improvements.

Worse than Weimar 1932

The last time in German history that official unemployment rose above the 4.5 million level, was in June 1933. The January 1997 unemployment is even 400,000 higher than the previous post-war record high of February 1996. As a share of the total workforce, the official unemployment rate increased from 10.8% to 12.2% between December 1996 and January 1997. In eastern Germany, this figure jumped from 15.9% to 18.7%. Meanwhile, in western Germany, for the first time ever, official unemployment, surpassed 3 million, reaching 3.26 million in January 1997.

The most devastating decline in employment was in the construction sector. Here, the unemployment exploded in January 1997 toward 251,000 in western Germany, and 150,000 in eastern Germany. This corresponds to a shocking 57% increase in western Germany, and 75% in eastern Germany, compared with the month before. The main reason for this unprecedented increase in unemployment in the construction sector is not the cold weather, but the shrinkage of public investment in infrastructure and housing. According to the latest figures available, orders in the construction sector fell in November 1996 by 15.5% in western Germany, and by 8.7% in eastern Germany. In the case of public orders only, the western German construction sector collapsed by 31.3% in November 1996. According to the German construction industry, this is the biggest ever monthly drop (**Figures 1 and 2**).

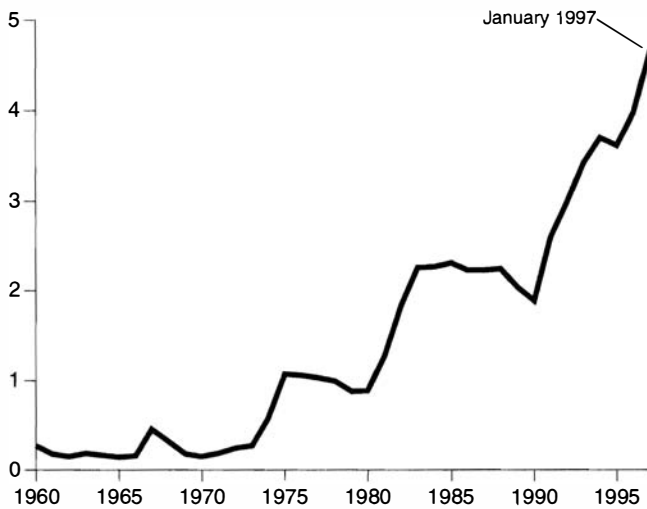
When Hitler took power in January 1933, the official unemployment stood at 6.0 million. The record-high of 6.1 million had already been reached in February 1932. At that time, the total workforce, as registered at social security offices, amounted to 18.6 million; that is, one out of every three persons in the workforce was unemployed. Today, we are dealing with 4.66 million unemployed people out of a total work force of 39.18 million; that is, one out of every eight is unemployed. However, to compare the German depression of 1997 with that of the late Weimar period, the above figures are not sufficient.

First, the real unemployment in Germany today is much higher than the official figures suggest. For example, the German unemployment offices registered 7 million people, who had been at least temporarily unemployed during the year 1996. A detailed account of the various categories of hidden, or camouflaged, unemployment was recently given by the Nuremberg-based Institute for Labor Market Research (IAB), which is part of the Federal Labor Office. It should be noted here, that the board of the Federal Labor Office, in late December 1996, presented a resolution to the German government,

FIGURE 1

Average annual unemployment in Germany*

(millions)



* From 1991 onward, includes new eastern German states.

Sources: German Federal Statistical Office, EIR.

employers' associations, and trade unions, warning that the unemployment in Germany had reached a level, which is "threatening the democratic society." In 1996, states the IAB, the overall unemployment in Germany averaged 7.7 million. This includes the official unemployment of 4.0 million people (west, 2.8 million; east, 1.2 million), but also some hidden unemployment categories. According to the IAB, during 1996, there were on average 260,000 people (west, 70,000; east, 191,000) participating in state-funded job creation measures, the so-called ABM jobs. Part-time work during 1996 amounted to the equivalent of 102,000 full-time jobs (west, 74,000; east, 38,000). Another 1.06 million people (west, 560,000; east, 500,000), after losing their jobs, were not registered as unemployed because they were temporarily participating in job training measures or took part in an early retirement scheme.

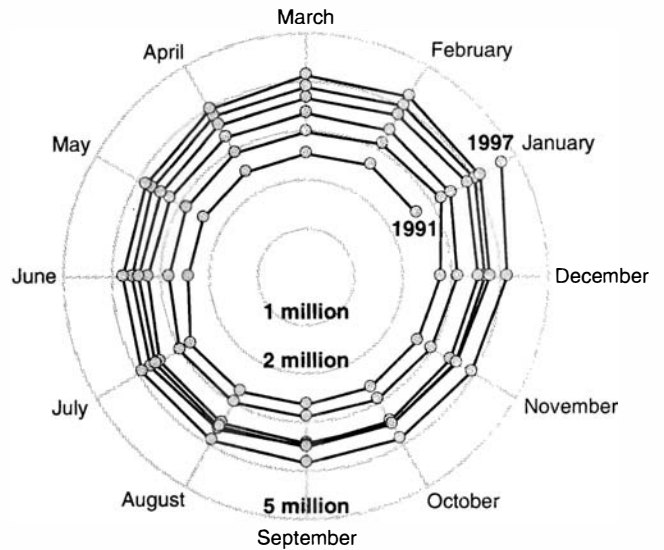
In addition to this, the IAB states, there are about 2.2 million people without a job (west: 1.9 million; east: 0.3 million), who have given up on finding a job and are no longer registering themselves at the unemployment office. Altogether, in 1996, this makes 7.7 million people, on average, without a job in Germany.

There is a continuous net flow of people from the official unemployment categories into the hidden categories, not the other way around. That is, the increase from a 1996 average of 4.0 million, to a January 1997 figure of 4.66 million, is not caused by having the hidden unemployed achieve a status of official unemployment, but by the cancellation of real jobs. The hidden unemployment in January 1997, therefore, is at least as high as the 1996 average. A fair estimate of the total

FIGURE 2

Monthly unemployment, 1991-97

(millions)



Sources: German Federal Statistical Office, EIR.

unemployment in Germany in January 1997, all categories included, is 8.5 million to 9 million. A year ago, in January 1996, the IAB had already put the total unemployment at 8.3 million, at a time, when the official unemployment was half a million less than it is now.

As for eastern Germany, the president of the German Association of Unemployed People, Klaus Grehn, is warning, that by taking into account hidden unemployment, about 50% of all people of working age will soon lack a regular job, a figure without precedent anywhere in the European Union.

Of course, techniques for camouflaging unemployment existed in the Weimar period. However, the effect was much smaller than it is today. In November 1932, the chief economist of the federal trade union (ADGB), Wladimir Woytynski, calculated that a hidden unemployment of about 2 million should be added to the official figures. A much more dramatic correction must be made by taking a closer look at the 1933 workforce figures. The above-mentioned total workforce of 18.6 million included only those workers who were registered at the various health insurance companies. The 9 million Germans working in the agriculture sector, and several more millions in other areas, were not included in this category. Therefore, the actual workforce was much higher. The Federal Statistical Office gives a 1933 figure of a 32.3 million workforce, including the 6 million people unemployed. Before dividing this work force into different economic sectors, let us start with a look at the overall demographic pattern, then and now.

In the year 1925, in which a detailed population census had taken place, there were 16.1 million people in Germany

TABLE 1

Employed workforce in Germany, 1933

Sector	Employed workforce
Agriculture	9.0 million
Mining	0.5 million
Industry	7.0 million
Construction	1.1 million
Energy, water	.2 million
Transport	1.3 million
Trade	2.7 million
Services	4.5 million
Total	26.3 million

below age 15, and another 3.6 million people aged 65 and older. The working-age population totalled 42.7 million. In early 1933, the estimated figures were 15.1 million below the age of 15, 4.4 million at least 65 years old, and 45.7 million of working age. Out of the last category, there were 32.3 million people recognized as in the workforce; that is, 26.3 million people with jobs and another 6.0 million people officially unemployed (**Table 1**).

The latest detailed review of the German population by the Federal Statistical Office is for the year 1994. Out of a total population of 81.5 million, there were 13.3 million children below the age of 15, and 12.5 million people aged 65 and older. This leaves a working-age population of 55.7 million. These figures have not changed significantly in January 1997. As mentioned before, the present workforce totals 39.2 million, out of which 34.5 million are employed and 4.7 million unemployed. **Table 2** lists all these figures as percentages of the total population; the year 1964 was added to the table, to give an example of a sound economy. The hidden unemployment is included in the category "working age, unemployed"; that is, 8.5 million in January 1997, and 8.0 million in January 1933.

The table shows that, in addition to record-high figures in absolute unemployment, such as those of 1933, today there is a dramatic decline in the numbers of young people in the demographic structure. While the percentage of children below the age of 15 falls from 22.5% to 16.3%, between 1964 and 1997, the percentage of older people increased from 11.7% to 15.3%. The problem is not these figures per se, but

TABLE 2

Demographic characteristics of Germany in 1933, 1964, and 1997

Population group	1933	1964	1997
Children	23.2%	22.5%	16.3%
Working age, employed	40.3%	45.8%	42.3%
Working age, unemployed	12.3%	0.3%	10.4%
Working age, not in workforce	17.5%	19.7%	15.7%
Elderly	6.7%	11.7%	15.3%
Total	100.0%	100.0%	100.0%

the dynamic they indicate for the years ahead. This can be seen more clearly in a comparison of a Weimar-era age-pyramid with a modern German example (**Figures 3 and 4**).

In the year 1925, for example, the female sector in age groups above 15 is an ideal version of an age pyramid. There is an obvious deficiency in the category of children below the age of 15 years, in particular, in the age group of 5 to 9 years. This is a consequence of a collapse in the birth rate during World War I, and the depression period which immediately followed. Another deficit can be seen in the male sector in age groups of 25 to 44 years; this is caused by the millions of men killed during the war.

In contrast, the 1994 age "pyramid" is completely different, with a rather erratic character. Apart from the surprising difference between the male and female section, with an almost equal division among the female age groups, there are two main features to address. First, not surprisingly, there is a much higher percentage today of older people, thanks to improvements in medicine. However, there is a worrying shrinkage of the younger age groups. In spite of the fall in births during war-time, 46% of the population was below the age of 25 in 1925; today this figure is less than 28%. The German baby boomer generation—in the year 1994, these were the age groups between 25 and 34 years—does not really represent a "boom," but rather the last occurrence of a somewhat normal birth rate. As the age group below 25 years enters the workforce in the years ahead, the percentage of the population that is of working-age will shrink further.

Every job eliminated under these circumstances will be much more serious than in previous years, because one employed person will have to produce the goods for a larger and larger number of people who are not employed.

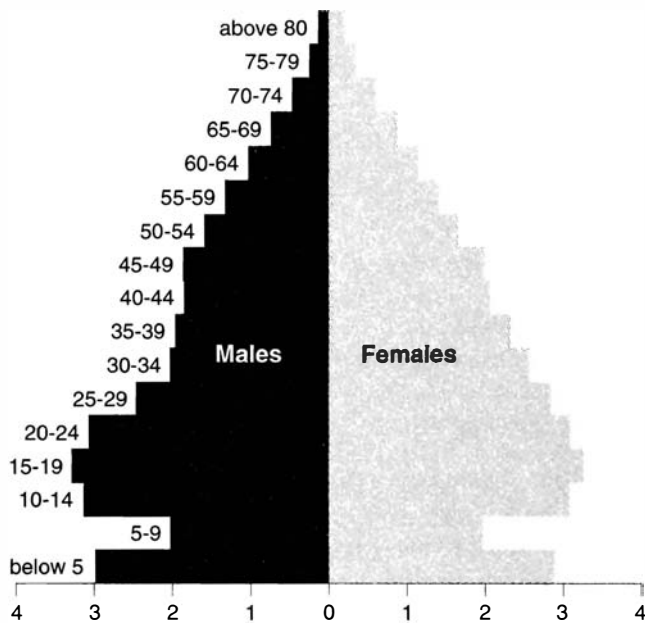
Even worse, a growing percentage of the remaining jobs is not productive. If we list as productive categories the economic sectors of agriculture, mining, industry, and construction, as well as those public works devoted to soft and physical infrastructure, the number of productive employees in 1933 was about 20 million. Today, far less than half of the jobs can be counted in the productive category—roughly 15 million. A large and rapidly growing part of the service jobs today is only part-time jobs. For every 100 productive jobs in 1933, there were 225 people who were not productively employed; today this figure has doubled, to 444 (**Figure 5**).

Destruction of the 'Mittelstand'

The present German depression, unlike former post-war recession periods, is characterized by an unprecedented wave of corporate bankruptcies. Many of the medium-sized companies that failed in recent years had been around for 50 years, often for more than 100 years. There will be no quick replacement for these companies, even if orders were to start to increase again. The present record-high unemployment, therefore, is not a consequence of temporary layoffs, but of the irretrievable loss of the economy's productive capacity.

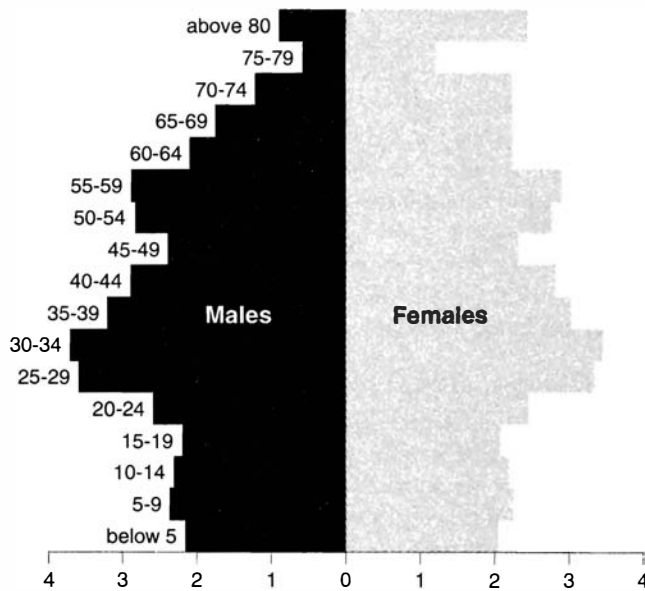
The sharp increase of corporate bankruptcies in Germany

FIGURE 3
Age pyramid for Germany, 1925
 (millions)



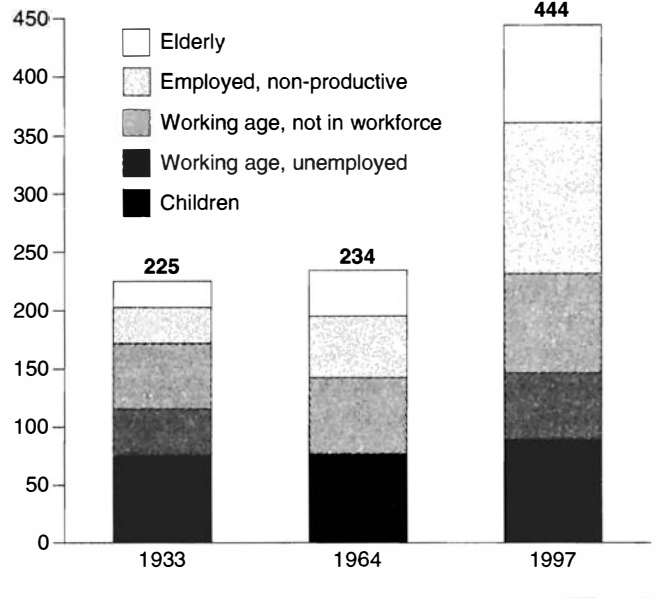
Sources: German Federal Statistical Office, EIR.

FIGURE 4
Age pyramid for Germany, 1994
 (millions)



Sources: German Federal Statistical Office, EIR.

FIGURE 5
Distribution of non-productive population in 1933, 1964, and 1997
 (per 100 productive jobs)



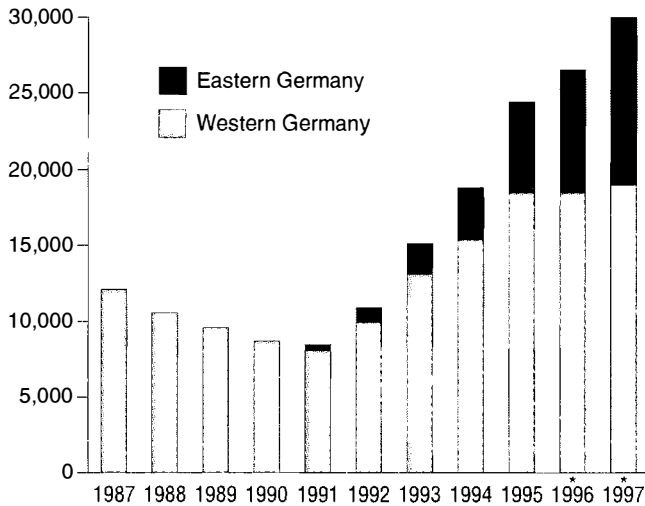
is documented by figures from the economic research agency Creditreform. In 1996, corporate bankruptcies totalled 26,500, which is 19% more than the year before. The estimate for 1997 is 30,000. For the fifth year in a row, the bankruptcy wave has reached new post-war record highs. The immediate damage of the 1996 corporate bankruptcies amounted to DM 45 billion in western Germany, and another DM 17 billion in eastern Germany. In this process, 317,000 jobs were eliminated in the west, and 170,000 in the east. For eastern Germany, this means an increase in jobs lost of 67%, compared with the year before. Almost 90% of the jobs cancelled through bankruptcies, belong to small and medium-sized companies. Since 1991, the rate of corporate bankruptcies in Germany has tripled (Figure 6).

In this respect, it is noteworthy that no other German state suffered such a skyrocketing increase of unemployment during the recent 10 years, than the supposed powerhouse of the German *Mittelstand*, the southwestern German state of Baden-Württemberg. Unlike the agricultural regions of northern Germany and parts of Bavaria, and unlike the former centers of German heavy industry in western Germany, the state of Baden-Württemberg was synonymous with medium-sized high-tech industry, in particular, machine building. However, it is exactly these categories of high-tech *Mittelstand*, as well as the most advanced sections of big industry—that is, aerospace, defense, and nuclear technology—which are showing the most devastating decline in employment. In the last five years, 550,000 jobs were cancelled in the German machine-building sector, 310,000 in western Germany, and

FIGURE 6

Corporate bankruptcies in Germany

(number of bankruptcies)



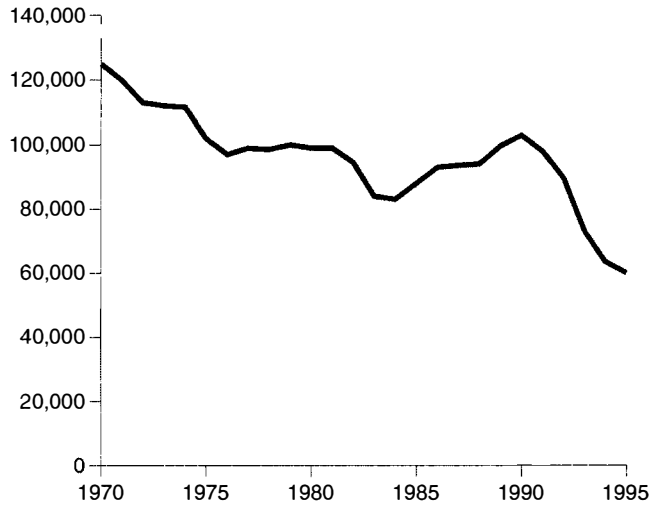
* Estimated.

Sources: German Federal Statistical Office, Hermes, EIR.

FIGURE 7

Employment in German machine tool sector*

(number of employees)



* Not including new eastern German states.

Sources: VDW, EIR.

240,000 in eastern Germany. Only 950,000 jobs in the German machine-building sector had survived at the end of 1996. That is, more than one-third was wiped out (Figure 7).

Even more dramatic is the collapse process in the German machine tool sector. Since 1990, the number of jobs in eastern German machine tool companies dropped from 100,000 to 10,000, while jobs in western German machine tool production fell from 100,000 to 60,000. Almost every week, another traditional German machine tool company is forced to file for bankruptcy. In October 1996, the Chemnitz-based machine tool producer, Heckert, collapsed, following the failure of its western German mother company Traub. Founded in 1885, Heckert became Europe's leading producer in several categories of metal-cutting machines. In 1990, Heckert still had 4,300 employees, and was perceived as being one of the most successful privatizations of former East German companies.

Shortly before Heckert, the other leading eastern German machine tool company, Fritz Werner & Niles, had collapsed. In December 1996, the well-known western German machine tool company Hermann Kolb followed. In January 1997, the Pittler group went bankrupt. In early February, Naxos-Union Schleifmittel und Schleifmaschinenfabrik AG, with 250 employees, had to file for bankruptcy. Just days later, Mikromat Werkzeugmaschinenfabrik Dresden GmbH, founded in 1869, collapsed. With 380 employees, Mikromat had been one of the largest remaining machine-building companies in eastern Germany. Mikromat is a specialist in high-speed and high-precision cutting technology, and recently constructed the first worldwide facility for overall micro-processing of steel. It collapsed, in spite of increasing orders from China,

because of the dramatic shrinkage in orders from its customers in the German machine-building and automobile sectors.

Good-bye, Germany

The new depression in Germany is also indicated by another important factor: emigration. The yearly rate of emigration by Germans (not including emigrations by foreigners out of Germany) has reached a new post-war high—that is, 130,000 during 1996. This figure was announced in January 1997 by Christopher Layden, General Secretary of the Hamburger Raphaelswerk, a church-run advisory office for emigrants. In an radio interview, Layden warned that because of the mass unemployment and other individual economic problems, the rate of German emigration has increased for the last four years by 20,000 annually. The majority of the emigrants are relatively young. It should be noted, in this regard, that the mass cancellation of jobs is being accompanied by a dramatic shrinkage of apprenticeships in German companies, the traditional method of entry to the job market for young people. With the number of new apprenticeships falling to 400,000, there will be about 200,000 fewer apprentices by September 1997.

The federal trade union, DGB, has just declared a "state of emergency" for the apprentice system, a backbone of the German *Mittelstand* model. According to figures by the Federal Statistical Office in Wiesbaden, the yearly emigration of Germans had been very high in the early post-war phase, reaching 114,000 in 1956, but then fell to 50,000 to 60,000 during 1970 and 1988. In just a few years, this figure has more than doubled.

World financial elites focus on systemic crisis in Davos

by William Engdahl

A most revealing indicator of how insiders view the imminence of a systemic financial crisis, is the degree with which the subject preoccupied debate at the World Economic Forum held in Davos, Switzerland. The talks, held this year on Jan. 31-Feb. 4, are organized to bring together once each year the leading figures in international banking, central banking, multinational corporations, and government, for informal high-level exchanges of views on major issues of concern.

This year's talks were in stark contrast to those of the previous several years. Debates ranged from, "Do we need to worry about financial system fragility?" to whether the Japanese banking crisis could erupt into a global crisis; the dangers in the present moves toward the European Monetary Union (EMU) amid soaring unemployment, and the danger of an outbreak of a new monetary crisis; or, whether there is risk of a breakdown in the global interbank payments system.

But what made the talks more striking, was the fact that they took place against a backdrop of alleged global economic growth, low inflation, and record highs in major stock markets around the world. The contrast between what the ordinary citizen is being told, i.e., "the economy is all rosy," with what senior financial circles at Davos expressed, could not have been more stark.

What is the World Economic Forum?

The Davos World Economic Forum was established in 1971, by a Swiss businessman, Klaus Schwab. Schwab's worldview was shaped during the 1960s as a student at the Harvard seminars of Henry Kissinger, who is also a Davos regular. Schwab's model for the Davos gathering, he acknowledges, came from attending meetings of the secretive Bilderberg Group. Schwab developed the format of a highly expensive (each delegate must pay \$16-20,000 to attend), elite meeting in the Swiss Alps, which would focus on the major concerns of the global establishment in banking, government, and business. Well more than 1,000 delegates and speakers meet over several days each year in public sessions, but more importantly, in informal private talks. Here, policy and deals with strategic importance are shaped. Who is invited and who not, is taken as a sign of political "acceptance" by this globalist establishment.

Among this year's participants were financial speculator

George Soros; heads of the largest European, Japanese, and American international banks; finance ministers from most Organization for Economic Cooperation and Development (OECD) member countries; as well as heads of central banks, senior International Monetary Fund (IMF) officials, and others. In short, the people who allegedly know the true state of world financial and monetary developments. And, they're preoccupied with the likelihood of imminent systemic crisis as never before.

A change in the bankers' mood

It is useful to reflect on the previous several Davos meetings to underscore the importance of this year's debate. During 1993-96, Davos took place amid a backdrop of the most dramatic financial crises since the Great Depression. This included the derivatives debacle at Metallgesellschaft, the Banesto bank crisis in Spain, the January 1995 Mexico peso crisis and the \$40 billion rescue package, the Japanese bank and stock market crises, the collapse of Barings Bank, Orange County, California's bankruptcy, and mass strikes in France in protest against Maastricht austerity.

Yet, in each of those past four meetings, by eyewitness accounts, the overriding focus was how to further advance the agenda of "globalization," especially in the area of world finance; how to force more deregulation and privatization of each nation's public enterprises. Each of the crises was cited by leading participants as "proof" that the system worked, not as a symptom of its imminent disintegration. Emerging markets from Russia to India to southern Africa were to be forced open to "free market" liberalization.

In the 1992 Davos meeting, precisely as the U.S., British, and Japanese banking systems and economies were struggling with the most severe bank crises and depression since the 1930s, problems directly tied to implementation of financial deregulation, Davos promoted IMF "shock therapy" guru Jeffrey Sachs as the model for eastern Europe and Russia. Davos in fact played a key role introducing Sachs to Russia. Sachs's shock therapy played a vital role in facilitating the looting of Russia's economy and raw materials by Sachs's friend Soros and others.

As well, when the Mexico peso crisis threatened to detonate a global liquidity crisis in February 1995 during the Davos meeting, conference delegates, including U.S. Treasury Undersecretary Lawrence Summers, told attendees that the crisis was under control and would not spread. Two days later, it emerged that Washington had pledged a record \$40 billion stabilization deal for Mexico. No problem. The next year, Mexico's finance minister was at Davos to deliver reassuring words.

This year, however, something had definitely changed the mood of the participants. Reality dictated that a detailed discussion of the imminent systemic financial crisis was in order. Not, it should be noted, in order to avoid such catastrophe through radically different economic and national monetary policies, as Lyndon LaRouche has urged repeatedly.

Rather, to inform the fellow members of the elite establishment what was imminent, so they might better prepare to emerge as survivors from the rubble.

The crises

Fred Bergsten, director of the Washington-based Institute for International Economics, set the tone in the first plenary address. He bluntly warned of "potential major shocks to the world economy; any of them could hit in 1997. The most immediate and urgent problem is Japan."

Bergsten outlined the Japanese financial system crisis. Despite more than \$500 billion in government economic stimulus programs to revive economic growth, with near-zero interest rates, and huge trade surpluses, the Japanese economy, Bergsten stressed, "has been the weakest in both the industrial world and East Asia for five years, despite its location in the world's most dynamic region. Something fundamental is obviously wrong. The main culprit is the weakness of the financial system, which continues to overhang the entire economy."

The current intent of the Ryutaro Hashimoto government, despite the weak economy, to ape European governments and U.S. Republicans, by imposing severe budget cuts to balance the budget, Bergsten warned, would further depress the economy in an extremely fragile moment, and could trigger a "sell Japan panic," which would drive investors out of Japan to seek gains abroad. This, in the wake of a 53% drop in the yen since April 1995, Bergsten said, could force Japanese banks and pension funds "to liquidate their still massive holdings around the world and provoke severe reactions in foreign markets as well as their own."

The present state of the EMU and the soaring unemployment in the European Union, was identified as a second possible trigger to a major global crisis.

As the text of the Maastricht Treaty on the EMU explicitly states, 1997 is the decisive year to determine whether countries meet the "convergence criteria," which mandate a maximum national budget deficit no more than 3% of GDP, and a maximum public debt no more than 60% of GDP. As of December, only Luxembourg had met both criteria for participating in the single currency two years hence. Germany's 1996 deficit was way above the 3% level, as was that of France and other EU members. Thus, in order to qualify for joining the new Euro, set to start on Jan. 1, 1999, these countries must continue savage budget austerity. For the past two years, such fiscal austerity, or deflation policies, have driven unemployment in the EU to an all-time record 20 million. Since the December 1996 Dublin EU summit, a major split between a French view of the new Euro, and the German view, began to emerge for the first time. This split was evident at Davos.

Horst Siebert, president of Germany's Kiel Institute of World Economics, stated, "The two important countries of the European Monetary Union, France and Germany, have not yet found a common philosophy on the very essence of the monetary union. According to the German understanding,

the money supply should be taken out of the hands of the politicians. . . . France has a diametrically different understanding. According to the French view, monetary matters are a political phenomenon and should not be left to 'technocrats.'" Given such a fundamental split between the two key member states, he concluded, "it is difficult to see how such a significant project can succeed."

Siebert's pessimism was underscored by remarks of one of the most influential German bankers, Ulrich Cartellieri of Deutsche Bank. Cartellieri, an aggressive advocate of the Euro project until recently, declared that he expected a major financial crisis to develop this year over the planned EMU. He added there was a real risk of a "crash of the EMU project. We need leadership and we need vision, probably this year more than ever." He added that, for example, allowing Italy in would set off a "ticking time bomb" on the whole project. Italy today has one of the highest public debt levels in the world, some 135% of GDP, more than double the Maastricht limit.

British Chancellor of the Exchequer Kenneth Clarke was the first to state that the "Emperor Euro" has no clothes. "I doubt that the EMU will start on time," he said. Soros retorted to the prospect, declaring about the EMU, "If it is delayed, it would be catastrophic."

The meeting examined possible systemic "triggers" in the global interbank payments system and hidden risks not yet seen. Andrew Crockett, general manager of the Bank for International Settlements, the Swiss-based lobby group of major world central banks, defined the risk to the global interbank payments settlement system as a major worry: "Twenty years after the Herstatt Bank crisis, little has been done," adding the alarming note, "When Drexel Burnham went under [in 1991], we were very close to a global system freeze."

Just how such a new interbank crisis could develop was suggested by Onno Ruding, vice-chairman of Citicorp. "In their crisis in 1990, U.S. banks took appropriate steps [sic]. Japanese banks and the Japanese government have yet to take such steps. There is a real danger that a bank or other failure could have a domino effect on the interbank settlement system. What happens if, say, a Japanese bank in New York or London has a liquidity crisis at a time of day when Tokyo is sleeping? Would the problem get out of control in the few hours before Tokyo opened its business day?"

Perhaps most telling of all in the debates at Davos, is that none of the leading figures of the present international financial order offered any serious remedy to a global system so obviously teetering on the brink of catastrophe. This absence of an alternative was perhaps best underscored by Howard Davies, deputy governor of the Bank of England, who proposed instituting "stress tests" on such areas as Japan banking or the EMU to determine possible systemic threats. What, then, if such a systemic threat was confirmed? The response was a deafening silence. This part of their agenda, apparently, these elites discuss only behind very tightly closed doors.

Business Briefs

Economic Policy

Tax the speculators, says Chinese economist

Hu Angang, the leading economist who is an advocate of developing China's interior, proposed taxing speculators to meet national revenue needs, in a commentary in the Jan. 23 *Asia Times*. He proposes that the government create "new, exclusive tax resources," which can serve the needs of the economy without taking revenue from local governments. The best source for new revenue, he said, is "collecting taxes from stocks, bonds, options, and foreign currency."

The "Tobin tax," a proposal by Prof. James Tobin for a 0.2% tax on financial transactions, has been discussed widely over recent years in China. Hu Angang also proposes centralizing social security systems, investing the money in government bonds, and new value-added taxes on the service sector.

Also, "Beijing must regain control of the nation's taxes," he said. The two-tier tax system implemented over the past few years, splitting tax revenue between Beijing and the provinces, has "not measurably improved the central government's financial condition." He insisted that "it is imperative to re-centralize some of the country's government power."

Investment

Innovation and R&D are key, says French adviser

Bernard Esambert, who advised France's late President Georges Pompidou on industrial matters, said that the key to solving the current economic crisis, is to invest in "innovation and research and development," in an interview with *Figaro Economy* on Feb. 2. "This is the only way," he said, "to counter the constraints of cost competition by the newly developed countries."

Esambert's view as to how "Europe can become the great economic continent," puts forth proposals which go against the Malthu-

sian views adopted by the French elites in recent years. There is no reason why France couldn't return to growth rates of over 3%, he said. The precondition is not to be "short-sighted and Malthusian." He attacked the elites' lack of "a grand design," and the illusion of those who think that the Maastricht criteria can have a positive impact.

Esambert said it was a shame that in recent years R&D spending has plummeted, and called for the creation of an Armard-Rueff committee (named after the two economists who created de Gaulle's economic boom) to reevaluate all current state employment assistance to companies, in order to transform it into a serious policy to aid innovation for small and medium-sized companies. We have "to abandon this Malthusian behavior which only brings death and which only leads us to rationing," he said, calling for French society to become more "Promethean."

Unfortunately, Esambert also favors freezing wages and increasing part-time employment, in the tradition of the United States, Holland, and now Germany.

Space

India to develop space plane technologies

India is considering developing a series of small technology demonstrator vehicles to indigenously develop critical technologies needed for a reusable aerospace plane, according to Dr. S. Sreenivasan, director of the Vikram Sarabhai Space Center in New Delhi, *The Hindu* reported on Jan. 31. Such an aerospace plane would have to function both as a hypersonic aircraft and as a space vehicle, he said, in the Dr. Biren Roy Trust Lecture at the annual general meeting of the Aeronautical Society of India.

Given the cost of development, an international effort would probably be needed to design and build the plane, he said. India needs to develop indigenous capability in critical areas of technology, if it wishes to participate in an international endeavor of this nature.

"We may be the first country to plan the

critical technology development through small flight demonstrators," said Dr. Sreenivasan. This strategy would minimize the risks, cost, and time needed for development. Both the Indian Space Research Organization and the Defense Research and Development Organization have carried out studies on small demonstrator vehicles.

Eurasia

Uzbekistan President promotes land-bridge

Uzbekistan President Islam Karimov spoke of building a "Shanghai to Paris railroad," in a press conference on Dec. 27, 1996 in Tashkent, the Foreign Broadcast Information Service reported.

In answer to a question from a Russian journalist, Karimov described the current rail-building projects going on in Uzbekistan. He said: "You ask how realistic is the grandiose route that would link us with the port of Shanghai. I want to tell you: We are in the process of negotiations with China and Kyrgyzstan regarding this project. The P.R.C.'s five-year plan envisages construction of a rail link to Kashi within three years. This project has been designated as a priority in China. The task of the two countries—Kyrgyzstan and Uzbekistan—is to build a rail link to Kashi from our side. We are currently conducting negotiations and mapping the route."

Karimov said, "This project could be very significant. It can link Shanghai and Paris. The rail line will traverse 12 countries. It has already been completed everywhere else—all that remains is to build this segment.

"What sources of financing will be brought in? . . . I can only tell you with absolute certainty that international corporations and well-known companies are showing great interest in this project. The most important point is that this is not fantasy—this is a real project that can be realistically implemented within five years."

On internal rail projects, Karimov said: "The rail link under construction will run from Zarafshan to Nukus. . . . This is approx-

Briefly

CANADIAN official unemployment figures released on Feb. 7, of 9.7%, and which have hovered at about 9% for 76 consecutive months, were the "worst . . . since the Depression of the 1930s," the *Toronto Globe and Mail* commented. The figures show "no sign of letting up."

CONTAINER traffic in Lianyungang, China, the terminus of the "second Euro-Asian continental bridge," handled 12,118 containers, a 47-fold increase in 1996, Xinhua reported on Jan. 30. "The cargo transported through the bridge has turned from one-way to dual-way and diversified, from machinery to chemicals, electronics, light industry, and agricultural products," it said.

ALBANIAN depositors were hit with another \$300 million in losses in the collapse of "Gjallica," a pyramid scheme fund, on Feb. 6, the fourth this year. The remaining big funds, Vefa Holding, Kamberi, Cenaj, and Silva, announced on Feb. 5 that they have joined to form a new institution in an attempt to avoid bankruptcy.

MORGAN STANLEY has announced a \$10.2 billion deal in which it will take over Dean Witter brokerage company. It would have a capital base of \$23.3 billion, making it the largest investment bank/brokerage firm in the world, with annual revenues of \$12 billion.

AUSTRALIA had 17,362 bankruptcies in 1996, or 23% more than in 1995, according to the Inspector General in Bankruptcy's Annual Report for 1996, the Feb. 4 *Australian Financial Review* reported. "Anecdotal evidence from accountants around the country says [the rate] is not slowing down," one accountant said.

CZECH rail workers reportedly agreed on Feb. 9 to end a strike which has shut down rail traffic in the republic. Railway union president Jaromir Dusek said the government had backed down somewhat from its plan for mass layoffs and when downsizing in "free market reforms."

imately three times longer, and therefore the project cost is much higher. The second project, building a Guzar-Baysun-Kumkurgan rail link, also is a very large and complex project, because it involves a mountain crossing."

Another project, a highway from Angren through the Kamchik mountain crossing, "is currently in the implementation stage," he said. "This motor transport route also is very complex because it will require two tunnels. We should be finishing it in 1997. This highway will enable us to link Tashkent with the Fergana Valley, bypassing the territory of Tajikistan's Leninabad Oblast. We have no problems with financing these projects. . . . The highway project can be completed within 1.5 years."

Transportation

Japan to help China with bullet train

The research arm of the Japanese Railways group of companies, the Railway Technical Research Institute, said on Jan. 29 that it has signed an agreement with China's Railway Research Institute to conduct tests toward providing digital automatic train control (ATC) technology to help China build a high-speed bullet train system linking Beijing and Shanghai, Kyodo press reported, according to the Foreign Broadcast Information Service on Feb. 6.

ATC is a computerized system that controls the speed of a train by electronically measuring the distance between it and the train ahead. The deal with the China Academy of Railway Science calls for joint tests along a nine-kilometer experimental track on the outskirts of Beijing to verify whether Japan's ATC technology can be applied to China's high-speed train project.

China plans to build the high-speed train system by the 21st century, under which bullet trains would initially travel the 1,300 km between Beijing and Shanghai at 250 km per hour. Beijing plans to boost the speed to 350 kph eventually. The accord also calls for delivering the experimental facilities to China's test track by August, and installing the digital ATC in an electric locomotive to be

supplied by the Chinese. The two sides will conduct a series of tests over the subsequent 12 months by teaming up with three Japanese ATC-related manufacturers.

Digital ATC is an advanced version of the ATC, that is so precise that time intervals between high-speed trains can be shortened more than with trains equipped with conventional ATCs. A spokesman for the research body said that the research team, China, and the group of three Japanese makers also agreed "in general" to evenly share the estimated cost of roughly \$1.2 million needed to undertake the experiments.

Philippines

Supreme Court favors 'national patrimony'

On Feb. 3, the Philippines Supreme Court awarded a \$30 million contract to purchase the government's majority share in the historic Manila Hotel to a Filipino group, whose bid was less than that of Malaysia's Renong group and U.S.'s ITT Sheraton, under the "Filipino first" clause of the Constitution, the Feb. 6 London *Financial Times* reported. The court cited "national patrimony" as the principle on which to prohibit awarding the deal to a foreign consortium. The court has also suspended contracts awarded in the \$7 billion privatization of the Manila Waterworks and Sewerage system. The decisions have dealt a setback to President Fidel Ramos's privatization program.

Six foreign chambers of commerce issued a joint "statement of concern" to President Ramos, threatening that "excessive challenges to public biddings" mean foreign investors "will go elsewhere unless the rules are clear, consistent, and do not change to suit the losing bidders." Endorsing the statement were the Chambers of Commerce for the United States, Japan, the European Union, Australia, and New Zealand.

Prior to the rulings, the privatization program had run aground, bringing in only one-fourth of the 1996 target of about \$1 billion in revenue. Of the funds received, the majority came from the sell-off of Ft. Bonifacio to Hongkong investors, negotiated in 1995.

Russia's liberal reforms: anatomy of a catastrophe

by Lyndon H. LaRouche, Jr.

Feb. 7, 1997

To summarize the issue before us: In the document which appears immediately following this introduction, scientists leading Russia's most authoritative econometrics institution (CEMI), demonstrate, factually, that Russia's liberal reforms have turned out to have been, one of the most monstrous, strategically deadly incompetencies in the history of political-economy.¹ Yet, stubbornly wrong-headed policy-shapers, among the monetarist *Torquemadas* of the International Monetary Fund, the U.S.A.'s National Endowment for Democracy, the U.S. Republican Party leadership, and elsewhere, continue to insist that Russia impose these ruinous "reform and democracy" policies ever more strictly.

*Caesar! "Beware the Ides of March!"*² Perhaps, no one could know, exactly, what major crises will, or will not break out during fateful March 1997. Yet, at the recent bankers' meeting in Davos, Switzerland, the coming March was considered by some relevant celebrities a likely occasion for a major new "bump" in the presently ongoing collapse of the world's monetary and financial systems. Following that Davos meeting, on Feb. 6, the Federal Employment Office of Germany announced, that even the officially acknowledged number of unemployed in Germany has reached the highest levels since the Great Depression of the early 1930s. The second, world-wide, Great Depression of the Twentieth Century, has now arrived; now, during the near term ahead, as during the Depression years of 1929-1932, things can only become worse, until a Roosevelt-

1. D. Lvov, V. Grebennikov, V. Dementyev, "The Path of Russian Reforms," Working Paper WP/96/014, Central Economics and Mathematics Institute, Russian Academy of Sciences, 1996.

2. "Soothsayer," in William Shakespeare, *Julius Caesar*, Act I, Scene II.



In Moscow (from left), Lyndon LaRouche, Helga Zepp LaRouche, and associates Jonathan Tennenbaum and Karl-Michael Vitt, at a monument to Russian physicist Kurchatov. LaRouche has maintained a dialogue with the Russian intelligentsia, and visited Russia in 1994, 1995, and 1996.

echoing economic-recovery program is brought in.³ In this situation, for growing numbers of top bankers and related policy-makers, March looms large.

In this setting of onrushing world crisis, notable figures of Russia have warned the world, publicly, that upcoming March, or, perhaps April, may prove to have been a likely time for the outbreak of major reflections of a burgeoning social and political crisis in Russia. March might pass? *"Aye, Caesar; but [the Ides of March have] not gone."*⁴ The danger

3. On the surface of things, each considered in the small: There are two principal differences between the U.S.A. and western Europe during 1927-1933, and the same regions of the world today: the monstrous reliance on spiralling accumulations of high-priced short-term indebtedness, as a substitute for actual income of both households and corporations, and the mid-1960s "cultural paradigm shift," away from a production-oriented culture, to a "consumerist" ideology. Typical of today's "consumerist" delusions: As early as the late 1970s and early 1980s, typical U.S. citizens, even putatively rational and literate ones, defended their posture of merciless indifference to the bankrupting of U.S. farmers, with the oft-heard utterance: "I don't need the farmers; I get my food at the supermarket." For those of us old enough to remember, first hand, the onset and persistence of "hard times" in the U.S.A., during the 1927-1938 interval, the U.S. population today has been experiencing increasingly severe "hard times," since the 1987-1992 mushrooming of the "derivatives bubble." Most interesting, clinically, is the pervasive, pathological phenomenon of psychological "denial," of the fact, that the worsening "hard times" so far experienced in individual and household life, already echo the similar hardships which persisted during the 1927-1938 period of the "Great Depression."

4. op. cit., Act III, Scene I. The referenced exchange, in the play, runs as follows:

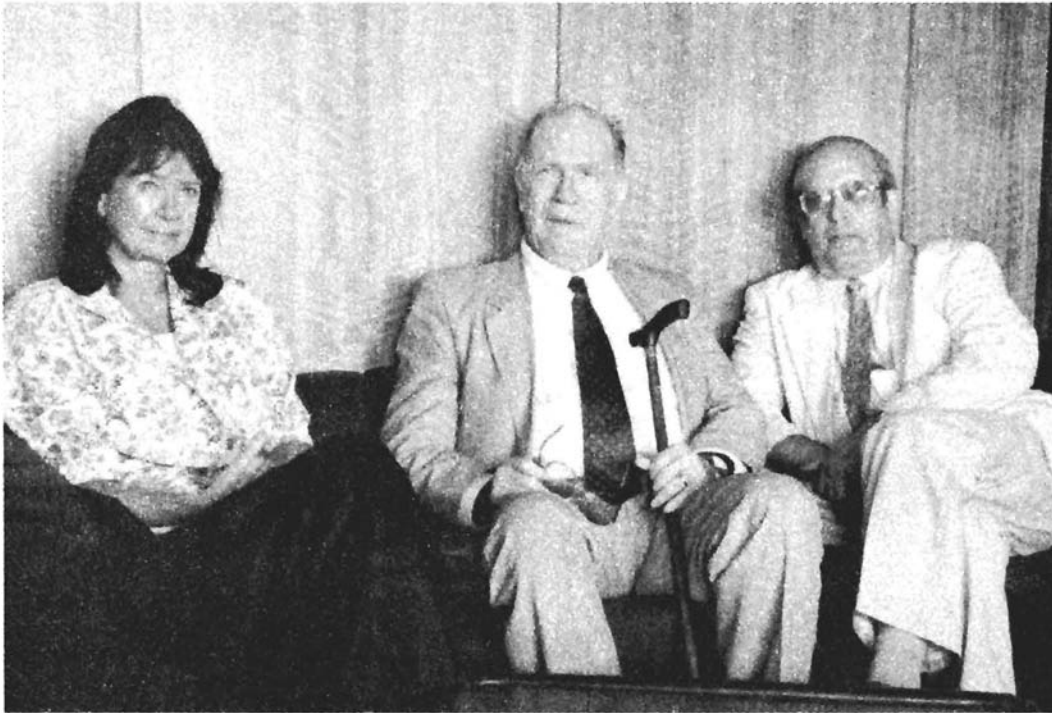
is, that, when the next phase of the Russia crisis strikes, the U.S. government, under pressure from the Republican majority in the Senate, might still be sitting, like England's legendary, doomed King Canute, howling denials into the face of the winds and waves of the rising storms of crisis, while clinging, stubbornly, to its present, catastrophically failed "Russia Reform" policy.

Russia today, is the leading center of an on-coming global pandemic of political tornadoes and earthquakes, each promising to strike us, at, or near the extremes of the relevant scales. In the recent CEMI report whose English translation is published in this issue of *EIR*, Academician Lvov, Dr. Grebennikov, and Dr. Dementyev, document those developments which threaten epoch-making convulsions during Russia's near future. That report demonstrates, that the U.S. government must proceed quickly, to scrap the foolish, catastrophically failed "reform and democracy" policy, the which was introduced into U.S. policy by the governments of Prime Minister Margaret Thatcher and the man her memoir described as her gullible lackey, President (*Sir*) George Bush.⁵ The U.S.A. could not afford the folly of not scrapping that British, Thatcher-Bush, geopolitical policy, introduced to eastern Europe during 1989-1992, which has come to be

Caesar: The Ides of March are come.

Soothsayer: Aye, Caesar; but not gone.

5. Margaret Thatcher, *The Downing Street Years* (New York: HarperCollins, 1993), pp. 782-83.



From left: Helga Zepp LaRouche, Lyndon LaRouche, and Academician Dmitri Lvov, during the LaRouches' visit to Moscow in June 1995. Many Russians "made the best of the situation in which they found themselves and their nation, under Soviet rule. The latter spirit is manifest in those members of Russia's Academy of Sciences . . . who seek to rebuild a shattered, post-Communist Russia today, with the same loving patriotic devotion to meeting 'the test of death' which they expressed as citizens serving under Soviet rule."

known as the "reform policy."

For fully sane persons, today's urgent question is: *What is the available alternative to the lunacy of continuing the present economic policies of the U.S.A., IMF, et al.?* In addressing the accelerating crisis in Russia, that question must be defined in a world-wide context, rather than a narrowly Russian context, or, rather than the context of the region of the former Soviet Union and Comecon. The situation must be defined, globally, on two levels.⁶

On the level of general, global policy-making, the onrushing, global financial collapse must be met in the reawakened spirit of world leadership by war-time U.S. President Franklin Roosevelt. The President of the United States must bring together a concert, of at least a quorum of world powers, and other partners, to establish a three-fold counteraction, to control and reverse the downward-spiralling Great Depression currently in progress. As the present writer outlined the three crucial features of such a global recovery program, during his remarks opening a Feb. 5 conference held in Washington, D.C.:⁷

1. An emergency meeting of such collaborating powers must be convened, to deploy emergency action, as might be done during a short weekend, to put the existing, bankrupt international monetary and financial systems into govern-

ment-supervised bankruptcy-reorganization, and a new system immediately established on the basis of: a) The best features of the 1946-1966 Bretton Woods agreements, reestablishing a system of relatively fixed parities, b) a revival of the policy of mutually advantageous protectionist measures of trade and tariff agreements, modelled upon the anti-Adam Smith, Franklin-Washington-Hamilton-Carey-List-Lincoln American System of political economy, c) establishing national banking, to supersede the bankrupted central banking systems, as a means for generating and regulating a system of productive credit-creation for recovery of national economies and of world trade.⁸

2. The adoption of the "Eurasian Land-Bridge" development program, which is already the joint policy of China and a growing number of other nations, as the centerpiece of a global economic-recovery program.⁹

3. The revival of the role of the strategic machine-tool sector of a "full set" economic model,¹⁰ as the crucial driving

8. On 1(b) and 1(c), see Friedrich List, *Outlines of American Political Economy*, with a commentary by Michael Liebigh and an Epilogue by Lyndon H. LaRouche, Jr. (Wiesbaden, Germany: Dr. Boettiger Verlag, 1996). See, Nancy Spannaus and Christopher White, *The Political Economy of the American Revolution*, second edition (Washington, D.C.: Executive Intelligence Review, 1996), pp. ix-xxv, 1-47, and U.S. Treasury Secretary Alexander Hamilton's relevant policy outlines to the U.S. Congress, pp. 355-453.

9. *The Eurasian Land-Bridge: The 'New Silk Road'—Locomotive for Worldwide Economic Development*, an *EIR Special Report* (Washington, D.C.: Executive Intelligence Review, January 1997).

10. The author adopts the recommendation of some among his associates, that we revive emphasis upon the term "full set economy." In those post-

6. See Lyndon H. LaRouche, Jr. on the subject of Analysis Situs: "Return to the Machine-Tool Principle," *Executive Intelligence Review*, Feb. 7, 1997.

7. FDR-PAC Policy Forum: "Eurasian Land-Bridge: The 'New Silk Road,' Feb. 5, 1997."

agency for increase of the productive powers of labor throughout the world.¹¹

Turn now to the subsumed, second level. We focus attention, more narrowly, on the cases of Russia, and relevant other nations formerly within the Moscow-centered Comecon system. We turn our attention to the one legacy of the Soviet system, the “strategic” machine-tool sector of Russia’s military-industrial capabilities, without whose revival Russia could not become an economically viable nation within the foreseeable future. We examine the subject-matter of the CEMI report with the implied assumption, that Russia is a key participant in the “new Bretton Woods” emergency conference, which, we propose, must be convoked on the initiative of President Bill Clinton.

An ecumenical strategy

Whenever we might consider an attempt, to bring the presently mostly ruined array of the world’s nation-states into a general order of peace and prosperity among sovereign nations, poses the question: “Under what common principle shall such a culturally diverse assembly of nations be brought together in this way?” The European civilization, born in Classical Greece, is about 2,500 years old, and was itself divided by the Roman Emperor Diocletian in the year A.D. 286, establishing the premises for what became the cultural cleavage between what Diocletian set on the one side, to the present day, as 1) “western Europe,” all of whose achievements, ever since, have reflected the Platonic tradition of Augustinian Christianity, and, on the other side, what has been, to the present day, 2) “eastern Europe,” dominated by the Aristotelean heritage of Byzantium. The remaining, principal divisions among the planet’s cultural matrices, are of the species Islam, Confucian, Hindu, or Buddhist, or of syncretic cultures combining axiomatic features otherwise found among these four, and also from European civilization.

The significance of this point is underscored by the growing number of nations which are becoming, or promising to become, active partners of China, Iran, and others, in developing what today’s China policy identifies as “The New Silk Road”: a spider-web of galactic-arm-like, economic-development corridors, each corridor built around a “spinal column” of a transportation trunk-line, all linking the Atlantic coast of Europe with the coasts of the Pacific and Indian oceans. The growing interest of France and Germany in these “New Silk

Road” developments, indicates that the world’s greatest concentration of “strategic machine-tool” capacity, the “Productive Triangle: Paris, Vienna, Berlin, Lille, Paris” [Figure 1], will be efficiently integrated, functionally, with the regions of Asia in which the greatest part of the world’s present and future population is embarked upon development: East and South Asia.¹² All of those principal cultural divisions of mankind which we have identified, are located chiefly along the routes of this proposed Eurasian development program.

Is there some common, axiomatic quality of principle, whose authority might be commonly recognized by peoples representing each and all of the indicated cultural divisions of mankind? The authors of the CEMI report do not address the issues explicitly in that way, but they touch upon the matter implicitly, and in a most efficient manner, in the middle section of their report, under the sub-head “Support for Recovery.”¹³ We ask the reader to stand behind this writer’s shoulder, watching as the author now turns to address the content of that portion of the CEMI report; share the view of the matter provided by this writer’s standpoint in economic science.

Since the author has elaborated the immediately following aspect of our argument in numerous, earlier, published locations, interpolated summaries will suffice here.

There exists a relevant body of combined evidence of historic, pre-historic demographic, and related evidence, for known cultures, and cohering archeological evidence for earlier traces of actual or putative ancient man. In earlier publications, the present writer has frequently referenced the best available approximation of a consensus among relevant professionals, respecting such demographic evidence. This spans empirical evidence collected from as remote a time as 1 to 4 millions years.¹⁴ This evidence demonstrates that the human species is of a different type than any other living species.¹⁵ Were man an animal, our species’ physiological ecological potential were of the order of higher apes, a maximum of several millions living individuals under even the most favor-

12. For a summary of the “Productive Triangle” policy set forth by Lyndon H. LaRouche, Jr. in November-December 1989, see: “Europe: the ‘Productive Triangle’ Must Be Implemented,” in *The Eurasian Land-Bridge*, op. cit., pp. 127-142.

13. See pp. 34-36.

14. *Executive Intelligence Review*, Feb. 7, 1997, pp. 15-16.

15. For example, only illiterate, or semi-literate barbarians will insist that the human species is divided, in any naturally determined, functional sense, according to racial differences. All forms of human individuals, whatever their otherwise relatively trivial apparent physiological distinctions, have identical cognitive potentials. Within the human species taken as a whole, the only differences of functional significance among persons are those of degree of cognitive and related cultural development of individual persons. The empirical evidence is, that most past cultures of mankind have been cognitively correctly inferior to the best modern culture. but there is no biological determination of cultural superiority, or inferiority among so-called “races.”

Great Depression definitions of U.S. national security established as policy until approximately 1966-1967, the principle was, that the U.S. economy must contain within its borders the “full set” of those components of infrastructure and production essential to sustain full national economic integrity under conditions analogous to general war or virtual siege. This, as distinct from today’s developing sector, and “globalized,” degenerate form of today’s U.S. economy. Excepting a few cases, such as Argentina during the 1940s into the 1960s, the post-World War II states of Iberia and the developing sector, have never functioned economically with a “full set.”

11. Lyndon H. LaRouche, Jr., “Return to the Machine-Tool Principle,” op. cit.

FIGURE 1

The Paris-Berlin-Vienna Productive Triangle, and its spiral arms of development, from a 1990 study



able conditions actually existing on Earth during the recent 2 millions years' cycles of waxing, and temporarily waning glaciation.¹⁶

By the time of Europe's mid-Fourteenth Century "New Dark Age," the total population of this planet had reached several hundred millions human individuals. The crucial fact, with which a science of economics, and any competent species of historiography, begins, is, that: *the global impact of the development of the modern European form of sovereign nation-state, has been, despite all of those contrary evils spewed from within modern European civilization, a greater improvement in the demographic characteristics, of whole populations and of households, than was effected by any and all earlier, other forms of cultures, combined, during all ear-*

lier human existence. Admittedly, the effort to break free of the imperial legacy of ancient Babylon and the Roman empires, to establish sovereign nations, antedates the Fifteenth Century formation of the first modern nation-state, France under Louis XI, during A.D. 1461-1483. Nonetheless, the form of nation-state economy which was set into motion by Louis XI's reforms, presents, for the first time in human existence, that specific combination of policies which has been the source of the hyperbolic improvement in this planet's general human condition over the interval 1461-1966.¹⁷ The net exceptional achievements of the influence of the modern European form of sovereign nation-state republic, over the interval 1461-1966, serves the scientist and historian, alike,

16. Perhaps significantly less than one individual for the average ten square kilometers of habitable regions.

17. See Lyndon H. LaRouche, Jr., "Return to the Machine-Tool Principle," op.cit., on the post-1966 reversal of the modern progress of planetary civilization up to that point.

as what physicist Bernhard Riemann's method identifies as a *unique experiment*, through aid of which to bring into empirical focus, that principle of human nature which has always set the potential of the human individual, in every culture, absolutely apart from, and above that of each and all of the animal species.¹⁸

Within that framework, situate a clinical view of the sharply contrasted successes and failures within the broad sweep of the 1918-1991 Soviet economy, as this is reflected within the CEMI report. This approach is uniquely indispensable to any competent opinion respecting the possibilities for rebuilding the economy of Russia. More broadly, these paradoxical features of the contrast between the relatively successful, former Soviet economy, and the utter failure of Russia's economy under the so-called "liberal reforms," provide a valuable lesson to the world as a whole. When we compare the impacts of the military sector of the economy in the former Soviet Union, with the best, exemplary cases of the western European model of modern nation-states, such as Colbert's and Lazare Carnot's France, the rise of Schiller's, Gauss's, and the Humboldt brothers' Nineteenth-Century Germany, and the 1789-1966 U.S.A. under the guidance of its Leibnizian Federal Constitution,¹⁹ we are obliged to recognize that these included successes, in both systems, express an underlying, axiomatic principle of Leibniz's teaching and influence, the which is commonly expressed within the best economic achievements of both the "Western" nation-state and the Soviet models.

The authors of the CEMI report put their fingers on the relevant point. In the section we have referenced above, they

18. The author's preference for the use of "unique experiment," rather than the more commonplace, classroom, "crucial experiment," is the need to place in a special class those experiments which define such a newly discovered, valid principle of nature, as leads to the discovery and validation of a new general hypothesis governing all physical space-time theorems, replacing the previously reigning hypothesis, the which had been rendered paradoxical by the kind of evidence which uniquely requires the overturning of that earlier hypothesis. For example, the Seventeenth-Century experimental evidence, leading through the discovery of isochronicity in the gravitational field, by Huyghens, through the determination, by the combined work of Huyghens, Roemer, Leibniz, and Bernoulli, of cohering isochronicity in the domain of that refraction of light determined by apparently constant rates of retarded propagation of light. The term "unique experiment" is introduced in this location, because of its significance in defining a functional notion of scientific and technological progress's role in increase of the productive powers of labor.

19. The fact that the U.S. Declaration of Independence rejects John Locke's principle of "life, liberty, and property," and adopts Leibniz's term of rebuke against Locke, "life, liberty, and the pursuit of happiness," instead, should be coupled with the Leibnizian language of U.S. fundamental law, that of the Preamble of the Federal Constitution, and the explicitly Leibnizian economic policy of President George Washington's administration, as reflecting the fact that the crafters of the Declaration of Independence and Constitution were, unlike scribe Thomas Jefferson, followers of Leibniz. The concepts of "pursuit of happiness," and "general welfare," are already developed conceptually in Leibniz's first writing on economy, his 1671 *Society and Economy* (e.g., John Chambless, trans., *Fidelio*, Fall 1992).

identify Russia's four "trumps in the game" of economic revival: "First, there is the nation's intellect, its education"; "Second, there are scientific schools which have traditionally defined the image of Russian science"; "Third, there is the unique geographical position of Russia in the world community," the bridge-head for the Eurasia Land-Bridge, unifying Atlantic and Pacific Eurasia; and, "Fourth," presently, largely idled, "accumulated production capacities in different branches of industry," which, if reactivated, would "satisfy a considerable share of internal demand," and also, "provide large supplies for export." Look at the CEMI picture of Russia's potential, henceforth, from the vantage-point of **Figure 2**, reproduced here from the author's "Return to the Machine-Tool Principle."²⁰

The common role which state-sponsored universal education, scientific discovery, state-directed infrastructural development, and investment in scientific and technological progress, have represented, in successful periods of economic growth within both "western European" types of sovereign nation-states, also within Russia under Tsars Peter I and Alexander II, and under the later Soviet system, reflects a principle which underlies all human progress, since the earliest prehistoric times. This deeply underlying principle, is the nature of man: the quality, universal to the newborn human individual, which sets mankind apart from, and above all lower forms of life.

That underlying principle, is therefore a universal principle, which is common to the nature of all men and women, whether they be products of western European or Byzantine, or Islamic, Confucian, Vedic, or Buddhist cultures. This underlying principle is, thus, a true ecumenical principle, the authoritative basis, in scientific certainty, for a law of economy common to all civilized society.

The nature of 'economic man'

For Christian, Jew, and Muslim, this ecumenical principle is traditionally defined, canonically, as the kernel of their religious belief respecting the nature of man. In the only literate choice of English prose style, that of William Shakespeare and the *King James Version*, *Genesis* 1:26-30, the terms employed are man and woman made in the "image of God," to "have dominion" over the Earth and every living thing within it. For Confucius, the matter is stated differently. Some in the tradition of the Vedas might agree, but others among them, like some Buddhists, might not. As the Soviet case brings the point into view, many today do not accept any religious teaching at all. Thus, for the sake of ecumenical universality, we must let the stones speak; if *Genesis* had never been written, the testimony of nature itself compels us to the same conclusion respecting the nature of the individual newborn person.

20. op. cit. p. 21. **Figure 3**: "How the Machine-Tool Principle is situated."

It is easily demonstrated, that the nature of the individual person so defined can mean nothing other than *Reason*, as scientists such as Nicolaus of Cusa, Leonardo da Vinci, Johannes Kepler, and Gottfried Leibniz defined the use of *Reason*.

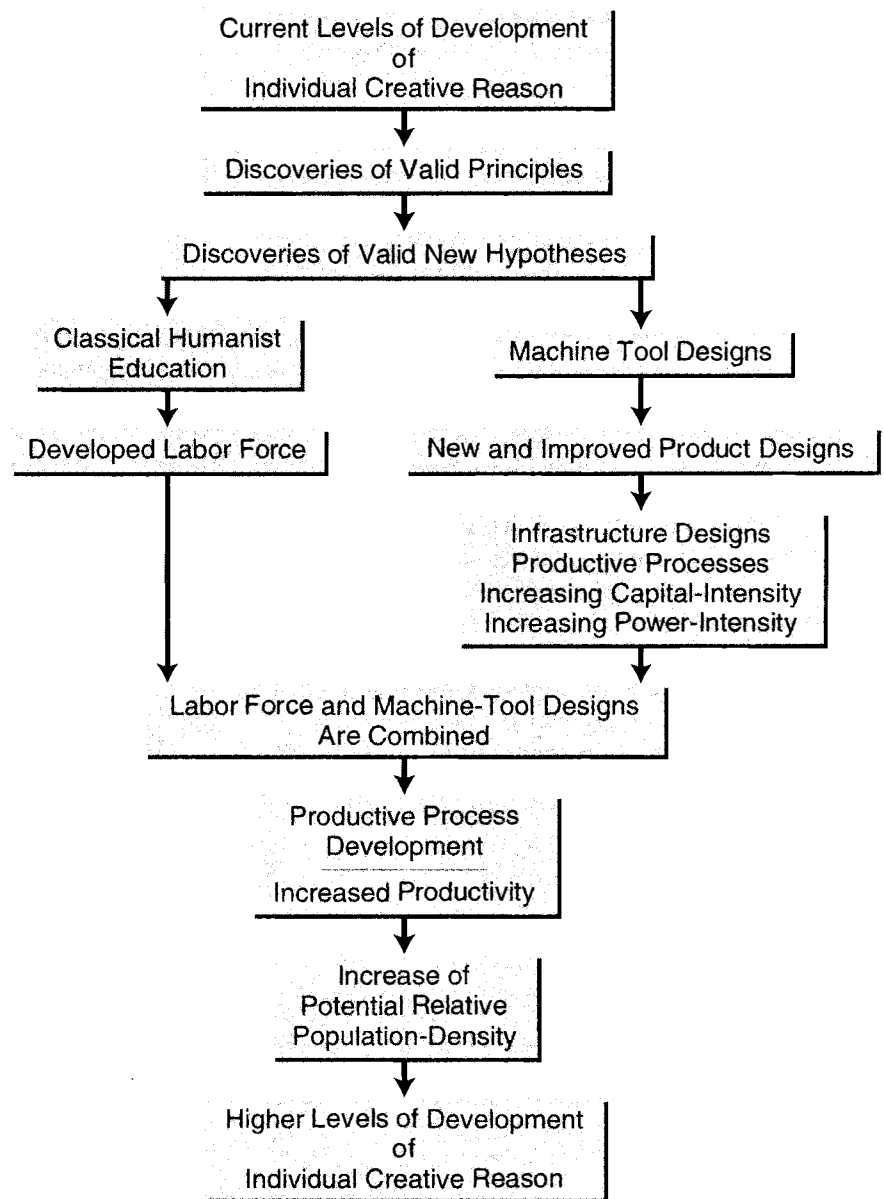
How does man effectively assert dominion, except by increasing the human population, as *Genesis* prescribes? Since the limit of living population for ape-like, or so-called "ecological" man, could not exceed several millions individuals, the dominion which *Genesis* prescribes could be attained only through increasing the *potential relative population-density* of the human species. The latter signifies, in practice, that we must simultaneously decrease the average land-area required to sustain a typical individual or family household, while decreasing the morbidity rates and otherwise improving the demographic characteristics of those populations, and increasing the material standard of living for households, while also increasing the physical productive powers of labor per capita.

When we look backward, toward prehistoric periods of human existence, we discern, rather readily, that certain changes in technology account for the general ordering of demographic improvements, relative to type of quality of area of habitation. Looking closely at the reasons for success or failure in the *physical-economic* performance of modern nation-state economies, enables us to define these matters in a much more refined way than the relevant archeologists have done. The development of the modern, sovereign nation-state economy, is the appropriate choice of subject for this inquiry; the connections are shown most clearly by focussing upon the industrial production of physical goods. In this approach, highlighting the coincidences and differences between the approach taken by the authors of the CEMI report, and the present author's work, should prove most usefully provocative.

For the best resolution of the functional relationships within that phase of the economy as a whole, we must focus upon the interconnections among: 1) a certain quality of education, the so-called Classical Christian humanist mode, as

FIGURE 2

How the Machine-Tool Principle is situated



typified by the Humboldt reforms in Nineteenth-Century Germany; 2) the "strategic" machine-tool-design sector of the economy as a whole; and, 3) the relationship between the labor-force so educated, and the environment of production and product-design defined by the interventions of that "strategic" machine-tool sector.

To meet the standards of measurement inhering in competent experimental physics, we must resort to Riemann's approach, as rooted explicitly in Plato's principle of hypothe-

sis.²¹ Although this author has defined this principle of hypothesis repeatedly in earlier published locations, the widespread ignorance of this principle of scientific method, even among science professionals, makes mandatory no less than a summary set of definitions.

A fair definition of hypothesis as such, from the standpoint of a simple Euclidean geometry, proceeds as follows. Given a set of propositions in geometry, subject to the restriction, that no pair among those propositions be mutually inconsistent. Employing Socratic method, adduce a set of underlying definitions, axioms, and postulates, the which is not inconsistent with any among such a subject set of propositions. That set of definitions, axioms, and postulates, taken as a unity, constitutes a simple choice of exemplary Platonic hypothesis. All possible propositions which are not inconsistent with that hypothesis, constitute a theorem-lattice.

For the case of geometry, concede, the baseless, arbitrary character of the assumption, that extension of space and time is limitless, and expunge the fallacious, Euler-Lagrange presumption, that extension is, axiomatically, perfectly continuous,²² without the possibility of intervening discontinuity. Next, concede, that any discovered new physical principle, such as one of experimental physics, which is validated by measurement, is an extensible principle to be treated as an added "dimension" of a physical space-time geometry. The result, is the development of a new hypothesis, superseding the hypothesis overturned by the relevant, validated, experimental evidence.²³

The latter view of the progress of experimental physical science, defines the historical process in terms of successions of hypotheses, each representing a potential advancement in the human condition over the knowledge represented by the hypothesis which it has superseded. Therefore, *Science* is defined as knowledge of those principles of revolutionary discovery, the which lead, from experimentally-based paradoxes overturning established hypotheses, through discoveries of validated new principles, to synthesis and experimental validation of superseding hypotheses.

Thus, Plato, like Leonardo da Vinci and Johannes Kepler, defines *Reason*, and Leibniz *necessary and sufficient reason*. Given a validated principle of nature: what is the hypothesis which corresponds to the experimental-physical reality of that validated principle? The hypothesis which satisfies that re-

striction, constitutes the relevant expression of "necessary and sufficient reason."

To bring into focus the crucial principle upon which the interdependent roles of education and the machine-tool principle depend, we must go a step higher, but in the same sense of direction.

In any competent mode of education, the student learns the validated principles discovered in the past, by reenacting the original mental act of discovery within the individual pupil's own, sovereign mental processes. The pupil is presented with a paradoxical fact, and in a paradoxical manner; the student is challenged to solve the paradox. By generating solutions to such paradoxes, and discovering how they may be validated experimentally, the student has relived the mental action of the original discovery. That student now *knows* the principle; if he had merely learned it, as from a modern style of textbook, he does not *know* the principle; the latter pupil's ostensibly correct formal answer to an examination question, has no more moral authority than mere academic gossip, mere "learning."²⁴

In the case, that the student has enjoyed an education of the superior quality associated with the Platonic humanist approach of Schiller, Humboldt, et al., the student has relived a significant portion of those discoveries of principle upon which all historical progress of mankind, up to that time, has been premised. In addition to learning each of these *Many* discoveries of principle one at a time, the student is made familiar with the repeated experiencing, within his or her mind, of that method of synthesis of such discoveries, the which orders the series of hypotheses corresponding to these discoveries. That method of synthesis corresponds to what Plato identified as *higher hypothesis*, and, also, as *hypothesizing the higher hypothesis*. This notion of "higher hypothesis," is the key to understanding the function of education and the machine-tool principle in the national successes of modern physical economy.

This notion of *higher hypothesis* takes us above the level of any generally accepted classroom-blackboard form of deductive mathematics. Leibniz sometimes identifies this higher domain by the term *Analysis Situs*.²⁵ Consider three types of examples of *Analysis Situs*.

21. As distinguished, as by Bernhard Riemann's 1854 habilitation dissertation, from a formalist mathematical physics. Bernhard Riemann, *Über die Hypothesen, welche der Geometrie zu Grunde liegen*, Bernhard Riemanns *Gesammelte Mathematische Werke*, H. Weber ed., second edition (New York: Dover Publications, 1953) pp. 272-287.

22. i.e., linear even in the very small.

23. Riemann, op. cit. pp. 272-273. For an elaboration of the present writer's views on the same subject-matter, see his "The Essential Role of 'Time Reversal' in Mathematical Economics," *Executive Intelligence Review*, Oct. 11, 1996.

24. Friedrich Schiller described such "learned gossips" with an appropriate term of contempt, as the *Brotgelehrten*. Francisco Goya cartooned such scholars as asses being taught by asses. In good classrooms, the important questions in any examination, involve matters for which the solution, or the procedure for its derivation have not been supplied in textbooks or earlier classroom instruction; rather, what should be tested, is the student's developed capacities for solving new classes of problems at the outer boundaries of the education explicitly supplied.

25. See "Studies in a Geometry of Situation," *Gottfried Wilhelm Leibniz: Philosophical Papers and Letters*, Leroy E. Loemker, ed. (Dordrecht, The Netherlands: Kluwer Academic Publishers, 1989); pp. 248-258. The Leibniz writings published posthumously under the title of *Monadology*, must be recognized as elaborating an *Analysis Situs*.

Cognitive development: In the process of superseding, successively, a series of hypotheses, the process experienced by the student's mind corresponds to an ordering of a succession of hypotheses. Since there can be no deductive consistency among different hypotheses, what is the quality of that anti-entropic ordering, the which subsumes an ordered succession of hypotheses? **Living processes:** Are characterized by an anti-entropic ordering, like that of successive states of hypothesis. **Ostensibly non-living processes:** In the particular, what we presume to be non-living processes are characterized by an implicitly entropic ordering; however, the universe taken in the large exhibits anti-entropy. Thus, considering the efficiency of the anti-entropic interaction among the ostensibly non-living, living, and cognitive orderings, the ordering of the particular process within the universe, is determined by a subsuming (e.g., underlying) principle of the universe as a whole. These orderings in physical space-time are implicitly Riemannian, expressions of that principle of *higher hypothesis*, a notion of the kind of formally discontinuous function which subsumes the implicitly measurable ordering of a succession of mutually inconsistent, physical space-time hypotheses.

Similarly, experimental science examines non-living, living, and cognitive processes, as interacting within a domain of ideas which are respectively microphysical, macrophysical, and astrophysical in quality. Thus, science is to be mapped in terms of permutations of efficient relations within the nine-cell domain so presented.²⁶ These relations are, in turn, expressed primarily in terms of ordered successions of mutually non-consistent physical space-time hypotheses.²⁷ All of the permutations, taken together as one, are, in turn, subsumed by a general principle of ordering.²⁸ Such, in summary, are the outlines of a generalized Analysis Situs.

When we return to economics, from considering these implications of the work of Gauss and Riemann for the further elaboration of Leibniz's principle of Analysis Situs, we have the following results bearing upon both the nature of the human individual mind, and the efficient bearing of the education of this mind upon sustainably profitable (i.e., anti-entropic) forms of physical-economic processes.

26. Permutations, not merely combinations, since the order in which the relations are represented, is functionally crucial.

27. Hence, not subject to a generally accepted classroom mathematics. Hence, after the combined work of Gauss and Riemann, the Euler-Lagrange presumptions respecting formal analysis of mathematical functions, are superseded by the principle, that every valid mathematics is generated, and supplied proof, from the standpoint of validated revolutionary advances of principle in experimental science, not the other way around. Gauss's Platonic approach to developing higher mathematics, establishes the method to which experimental science must turn, to devise appropriate new forms of mathematics as discoveries of principle require this.

28. E.g., an echo of the ontological paradox of "One" and "Many," the which is the subject of Plato's *Parmenides*.

Once a Classical humanist mode of education is examined from the standpoint of a Riemannian form of Analysis Situs, we are enabled to form distinct ideas respecting the parallelism between, first, those advances in knowledge which arise from reexperiencing the original discovery and experimental validation of universal principles, and, second, those increases in anti-entropic qualities of "full set" physical-economic processes, the which result from investment in the increase of the productive powers of labor through scientific and technological progress.

As Leibniz argues, in his 1671 *Society and Economy*, we must recognize that the physical-economic productive powers of labor depend upon provision of the necessary preconditions of cultural development and situation of work, upon which the sustaining of such expressed productivity depends. These include the cultural conditions of family life, on which the relevant conditions of health and cognitive powers depend. As Leibniz elaborates these notions in his later writings bearing upon the science of physical economy, the development of basic economic infrastructure, is such a precondition, as are capital-intensity of production and density of power supplied to operations of production and infrastructure. Thus, to employ a common classroom term, we may speak of a required "energy of the system," enveloping the preconditions for producing and sustaining of a specified potential, physical-economic productivity of labor, as set within an historically defined situation.

Thus, "full set" physical-economic processes express implied functional relations, between changes in per-capita and per-square-kilometer values of "energy of the system" and "free energy." The required increases in "energy of the system," needed to sustain, or to increase potential productive powers of labor, represent a functional restriction. The related requirement, to increase the physical-economic capital-intensity, power-intensity, and technological advancement, of both infrastructural development and production, is a functional restriction. With those, and related constraints, the general requirement is that the physical-economic ratio of "free energy" to "energy of the system" must not decline.

In any function consistent with any of today's generally accepted, classroom, deductive mathematics, the physical process so described, is formally, and also actually, an entropic "zero-sum game." A physical economy which meets the indicated functional requirement for maintaining or increasing the ratio of "free energy" to "energy of the system," is, from the standpoint of Analysis Situs, characteristically anti-entropic.

Similarly, any effort to define a living species genetically, defines that species' population-function as attritionally entropic. The anti-entropy of the lower living species, lies where Nicolaus of Cusa located a principle of evolutionary development, in the Analysis Situs which locates the emergence of higher species from within arrays of lower ones: a living spe-

cies is, in Cusa's (i.e., Analysis Situs) argument, functionally, a relatively lower species which participates in the existence, or coming-into-being of a higher species. Man is the only species which evolves, within itself, to higher cultural states of evolution. On this point, we encounter the kernel of the absolute difference which sets mankind apart from, and absolutely above all other forms of life. Man participates in the higher species he is becoming, and, participates, thus, as such a lower species, in that Creator whom Plato identifies as the Composer of the universe, the Good.

Thus, such is the universal nature of individual man. Thus, human nature appears to be from the standpoint of the professional practice of experimental science. However, there is an additional feature which is crucial: *the human emotion*, which Plato and the Christians identified by the Greek term *agapē*. The combined standpoints of Analysis Situs and *agapē* are what Kepler and Leibniz recognize as the principle of *Reason*. This notion of *Reason* is thus the name for the universal principle of which the stones might speak, the universal, ecumenical nature of man.

This is the quality of the individual which must be addressed by the interacting requirements of education and household life. It is the development of these cognitive (creative) potentials of the individual, through household nurture and education of the young, which the Classical humanist education best fosters, which develops the moral character of the student, by bringing to higher levels of fruition that quality which sets the human individual apart from, and above the beasts.

The individual so nurtured and educated, may translate validated discoveries of principle, and of improved hypothesis, into qualitatively improved designs of products, and qualitatively and quantitatively improved infrastructure and productive processes. The individual so nurtured and educated, as a member of the labor force, is enabled to assimilate these improvements in design. Otherwise, that individual represents a society which is capable of making effective use of the products and improvements in infrastructure so provided.

Thus, those cited four features of the former Soviet society referenced within the CEMI report, address the kernel of those Nineteenth-Century developments in modern agro-industrial, nation-state economies, the latter which embody the vast superiority of physical economic performance of modern European civilization, including Soviet society, over all historic and prehistoric predecessors.

Thus far, the programmatic approach to revival of Russia's economy, implicit in the CEMI report, satisfies the conditions specified, at least in approximation. We support that conclusion by aid of the included presumption, that the CEMI authors would not object to refinements in education policy along the lines the present author has implied here.

The nature of human motivation

This brings us to the crucial issue of *motivation*.

Some leading former Soviet scientists have concurred with the present writer's observation, that true scientists need no other motivation than love of scientific work to push themselves to, or near the limits of their capacity for achievements. Generally, as long as they have sufficient personal sustenance to meet the requirements of their personal and household affairs, dedicated professionals would prefer to devote themselves to scientific work, than be offered any better-paid alternatives. When one considers the scarcely stunning relative pay-scales of the typical Soviet scientist, and compares this with the productivity of Soviet science against world standards, there can be no reasonable doubt of what we have just argued on this point.

The same is also true for the most serious scientists and professional Classical artists, even in the Golcondas of western Europe and North America; even the most highly celebrated such artists would be devoted to their profession, were they confronted with the painful choice, either to eke out their material existence within the bounds of their profession, sell themselves "on the street" of cheap entertainments, or, labor outside the profession.

Now, put to one side the special case, of the motivation of the best scientists and the moral sort of Classical artists. How might the generality of the population be motivated for progress, rather than seeking riches like some tragically decadent, pleasure-chasing character out of a Balzac novel, or, of John Locke's perverse desires?

In Christianity, for example, the "test of death" obliges the mourners to reflect on the meaning of the brief historical passage of the individual through mortal life.²⁹ In the balance which may be struck, in preparing the elegy for that solemn occasion, insightful reflection may discern that aspect of the departed one's life's work which should be regarded by mankind as a blessing supplied by the Hand of Providence. In the words of the Islamic poet, we may refer to the idea, that the individual whose passing has satisfied "the test of death" in that way, had died "with a smile on his face." In the tradition of Confucius, the same principle is adumbrated by a different tactic. Did not Soviet society seek a proper balance-scale for a like purpose?

The pervasiveness of conscience-stricken regrets, reminds us, that relatively few have not often mislaid the will, to live up to the standard implied by such a "test of death." We should be reminded, so, that it is not sufficient merely to contemplate such a value; one must be governed by the efficient passion to realize it. What, whence, such quality of pas-

29. "Test of death" = Latin "... in mortis examine." Compare musician Mindy Pechenuk's presentation of the Analysis Situs of Wolfgang Mozart's "Ave Verum Corpus" motet (K. 618) to the September 1996 Reston, Virginia conference of the Schiller Institute. *Fidelio*, Winter 1996.

sion? The implicitly required motivation need not be sought outside the bounds of *Reason* itself; that passion was known to Plato, and to the Christian Apostle Paul, by the Greek name *agapē*.

Here, we place the emphasis on the fact, that that specific quality of emotion is known to whoever has succeeded in producing valid original discoveries of principle by the Classical humanist methods indicated above. It is known, similarly, to whoever has, otherwise, reflected upon the specific quality of passion, the which is required to drive to the point of successful “break-through,” the replicating of another’s original solution to an ontological paradox. Without that specific quality of passion, the which is indispensable to drive concentration to the outer boundaries of present knowledge bearing upon the relevant paradox, there could be neither valid original discoveries of principle, nor the effective replication, and, thus, actual knowledge of, any original such discovery from the past.

That lack of precisely that quality of passion, is the basis for the entire philosophy of Leonhard Euler’s follower, the unfortunate Immanuel Kant of the *Critiques*. Hence, his hysterical, formalist’s denial, that the possibility of such wilful discoveries exists, is the centerpiece of Kant’s sterile life.

On this account, Classical art is precious to science, and to morality in general. On this account, the Fifteenth-Century Golden Renaissance’s universal scientist and universal Classical artist, Leonardo da Vinci, is exceptionally precious for modern civilization as a whole. Scientist Leonardo’s method in the domain of Classical art is of the quality of *metaphor*, an unnamed, paradoxical meaning, which underlies two or more ironies. All such metaphor, thus, takes the mind beyond the reach of the senses and the sensuous passions, into that same realm of ontological paradox, for which Riemann supplies his original discovery of an approach to mathematically measurable solutions of problems in the domain of Analysis Situs.

Consider all Classical art as in opposition to such decadent practices as “Romanticism,” “Modernism,” etc. In all modern Classical art, such as that of Leonardo, Raphael Sanzio, J. S. Bach, Mozart, Beethoven, and Brahms, *agapē* as such is demonstrably the underlying subject-matter; hence, the discernable religious quality of all such Classical art, in opposition to “Romanticism,” “Modernity,” etc.

Once one perceives the riddle of the mural, “The Last Supper,” on the far wall of the chamber in Milan’s Santa Maria della Grazia, as implicitly a mirror-image of the room in which one is standing, one finds oneself reflected into the right eye of Jesus Christ. Or, the paradoxical sources of light in Leonardo’s “Virgin of the Grotto,” or the ontological paradoxical character inherent in the viewing, on site, of Raphael Sanzio’s “The School of Athens,” or “Transfiguration.” We have a foretaste of this, in reflecting upon the revolutionary

advance of Classical Greek sculptors, such as Scopos and Praxiteles, over the sterile archaic standard of then-contemporary Egypt: Classical art takes the mind beyond the fallacy of sense-certainty, by means of posing ontological paradoxes, metaphors, which challenge the creative-cognitive powers of the individual mind.

For a more rounded overview of this same principle of Classical art, consider the form of *motivic thorough-composition* originated by Wolfgang Mozart.³⁰ A composition which satisfies Mozart’s method, can be represented in formal-musical terms, only as a functionally ordered succession of Riemann surfaces.³¹ That is to emphasize, that the performance of the composition must be governed, throughout, in memory’s anticipation of the completed pathway to that resolution which appears at the close of the composition. The celebrated conductor Wilhelm Furtwängler referred to the polyphonic tension so evoked in the Classical performer, as “playing between the notes.” Thus, it is often said, that after a performance of “arch-Romantic” Richard Wagner’s *Tristan und Isolde*, “There was not a dry seat left in the house”; whereas, in the faithful performance of any major work of Mozart, Beethoven, or Brahms, there should not be a “dry eye left among the audience.”

The quality of “tears of joy,” or *agapē*, is, in this way, the underlying subject-matter of all great Classical art.³² The point to be emphasized, is that this is the same emotion called forth within the individual for the successful attack upon needed principled solutions for ontological paradoxes in scientific work. This same quality, is the proper motivation for all addresses to the problems of principle bearing upon social relations and statecraft.

Without *agapē*, there is no *Reason*; “Reason” apart from “*agapē*,” is a paralogism, akin to the mechanist’s notion of a living human body without life.³³ The delusion, that the quality of *agapē* must exist independently of “Reason,” is typical of Aristotelean conceits, which confuse “Reason” with deduction, and science with a hesychastic quality of contempla-

30. See, Lyndon H. LaRouche, Jr., “Mozart’s 1782-1786 Revolution in Music,” *Fidelio*, Winter 1992, and, “The Essential Role of ‘Time Reversal’ in Mathematical Economics,” loc. cit. Although Mozart’s discovered principle is historically rooted, entirely, in his original solution to an implication of J. S. Bach’s *A Musical Offering*, Maestro Norbert Brainin has discovered decades past, a most compelling case for the still too-little known proposition, that Haydn’s student, Mozart, was put onto the track of such new principles of composition, by Haydn’s own discovery of *Motivführung*, as employed in Haydn’s Opus 33 “Russian Quartets.”

31. See Mindy Pechenuk, op. cit. See also, the author’s referenced paper on the subject of “time-reversal” in mathematical economics.

32. Thus, the *canonically* religious quality intrinsic to the Mozart *Requiem*, and Beethoven’s *Missa Solemnis*, in contrast to the sensualist, irrationalist “Romanticism” of Hector Berlioz’s blaring *Requiem*.

33. E.g., the Benjamin-Franklin-hating British Benthamite, Mary Wollstonecraft Shelley, with her political anti-science tract, *Frankenstein*.

tion which Jonathan Swift's "Gulliver" found among the sages of the floating island of "Laputa."

Friedrich Schiller's deep insight into the role of *agapē* within *Reason*, is pivotal in Wilhelm von Humboldt's educational reforms.

Classical humanist education is premised upon the practice of inducing the student to reenact, each within his or her own, sovereign mental processes, valid original discoveries of principle in the domains of science and Classical art. This requires that the curricula be governed by a certain ordering of such rediscovery of principles, according to the criterion, that the principle which the student must rediscover next month, should be the solution to a paradox whose comprehension is made reachable through the principles rediscovered during the present and earlier months.

This practice, by invoking the agapic motivation of creative solutions to ontological paradoxes, in this way, was recognized by the Humboldt reforms as providing a form of education whose most common benefit was the development of the moral character of the individual graduate. That development is nothing other than the twofold strengthening of the agapic impulse within the student's life: rendering the agapic motivation more readily accessible, and situating the mastery of crucial tasks of life, including social relations, in reference to that emotion.

Communism and *agapē*

Did professedly atheistic Soviet Communists experience *agapē* as motivation? Obviously, many did. The CEMI report prompts our attention to this by its references to motivation, under the subhead, "Russian Anti-Communism as an Ideology."

The corrosive influences of moral decay which post-missile-crisis Soviet society shared in common with the U.S. and western-European cultures of the 1960s through 1980s, produced within the ranks of Party and opposition a quality of existentialism historians associate not only with the 1920s Weimar youth-counterculture Germany of the Nazi ideologue Martin Heidegger and Hermann Hesse's *Steppenwolf*, but with those waves of radical "conservatism," as described by Dr. Armin Mohler,³⁴ out of which the Nazi and related movements were created.

Thus, under the geopolitical conditions imposed by Thatcher's Britain and U.S. President Bush, a dionysiac horde of pillagers was unleashed from the rage-filled underside of both the old Soviet Nomenklatura and the morally disoriented portions of the former opposition.

That historical parallel is extended to the degree that the

chief ideological influence around which the geopolitical pillaging of former Soviet society is organized, is British intelligence's highly ideological Mont Pelerin Society, the agency which transformed an English greengrocer's daughter, into the mean British Nanny, former Prime Minister Margaret Thatcher.³⁵ The Mont Pelerin Society itself, long headed by a recently deceased, Hitler-era radical conservative, Friedrich von Hayek, is an authentic clone of those 1920s and 1930s "radical conservative" strata from which the Nazis and genetically kindred fascist movements were spewed.

This same Mont Pelerin Society is the leading coordinating agency among an aggregately powerful array of foundations and related agencies, such as the Heritage Foundation, National Endowment for Democracy, and International Republican Institute, which operate, directly, or indirectly under the control of the British oligarchy's foreign policy and related executive organizations.³⁶ The British agent, George Soros, is also typical of the screens behind which the higher level names of the British monarchy operate.

The "conservative revolution's" Mont Pelerin Society and its ideology is the leading origin for that stink of nominally "anti-communist" cultural pessimism, against which the authors of the CEMI report complain, with their words: "A simple formula is drummed into the masses: The market economy is based upon private property, and that means it is incompatible with any ideology. And, in general, the market gets along without any ideology, because it is governed by day-to-day interests, not by utopian fantasies about a brilliant future." The authors rightly emphasize the nature of the fraud in the babbling "free market" rhetoric: ". . .the ostentatious ideological nihilism of the ruling elite is a hypocrisy that poorly conceals its adherence to its own ideology."

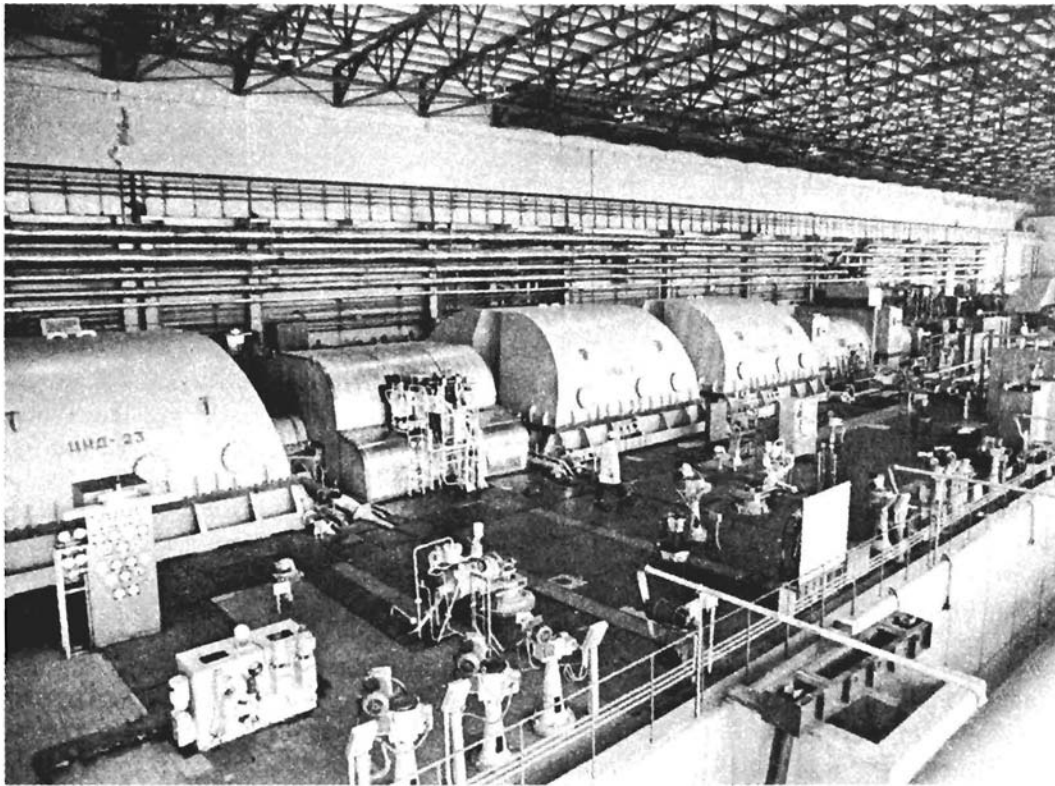
Certainly, "free market" ideology was always a fraud which was concocted by witting scoundrels for the purpose of looting the credulous. The more one degrades market relations in the direction of pure anarchy, the greater the rate of entropy in the economy; the more savagely national boundaries are breached, the more rapidly, extensively, and uncontrollably, the floods of chaos will sweep over the world at large, when the inevitable, onrushing implosion of the present speculative bubble breaks out.

London's oligarchical elite, expects, and even welcomes that foreseeable catastrophe. That oligarchy's game is no longer secret to anyone who matches the actions of British Commonwealth raw-materials asset-grabbers, with the plain-

35. It is notable, that highly placed British insiders recognize Friedrich von Hayek's reprogrammed Thatcher as a caricature of the Labour Party's late Bessie Braddock.

36. These British Commonwealth organizations, which are the immediate "constituency" of the British monarchy and Privy Council, are known generically by the title "Club of the Isles," and are typified by the institution behind the 1961-founded World Wildlife Fund, the self-styled "1001 Club."

34. Armin Mohler, *Die Konservative Revolution in Deutschland, 1918-1932*, second ed. (Darmstadt: 1972).



In the turbine room of the St. Petersburg Atomic Power Station. Without the revival of Russia's military-industrial capabilities, the legacy of the "strategic" machine-tool sector of the Soviet system, "Russia could not become an economically viable nation within the foreseeable future."

spoken policy uttered within the relevant British Commonwealth press itself. The game is, to liquidate the institution of the modern sovereign nation-state, ending the five-odd centuries of development of the European model of investment in general education and scientific and technological progress of national agro-industrial economy. Amid the ruins of the collapsing national economies, to descend, like vultures, to grab from the mortal remains of dying nations in Central Asia, Africa, and elsewhere, a virtual monopoly over the production and trade in the majority of those food and mineral resources upon which future life on this planet will depend.

The demoralization of those of Russia's present "anti-communists" to which the CEMI report refers, points implicitly to the existence of the relative moral superiority of the Soviet system, over that of the Mont Pelerin Society-influenced "anti-communists." The fact that Soviet society was axiomatically anti-religious, sometimes militantly so, must not be understood to suggest that Soviet society did not participate, in its own fashion, in the ecumenical sort of morality which we have outlined here. The four "trump cards" which Soviet society has bequeathed to Russia and the world today, are reflections of nothing different than the power of *agapē*, as *Reason*, as we have defined it here, acted through, chiefly, the Soviet commitment to scientific and technological progress.

Russians, and relevant others around the world, must not

forget that Soviet society, premised largely on accomplishments inherited from earlier Russia, also made its contributions, a legacy which must be brought Phoenix-like, from the ashes of the fallen system. That legacy was relatively good for its time and situation. Now, the system which has ruled western European civilization these past thirty years, tumbles into the same sewer of economic depression and financial collapse, into which the Soviet system was dumped but a few years earlier. All that was good under today's recently fallen, and falling dynasties, was the creation of *Reason*, as we have defined "Reason" here; like the mortal soul, who entered time as a newborn stranger, and later left us with benefits mankind would otherwise have lacked, the products of agapic Reason are always to be treasured, and salvaged for the benefit of present and future generations.

True, some Communists were terrible. They were like the hooligan Maximilian Robespierre, or the British foreign service's agents Georges Danton and Marat, nothing but diynysiac terrorists, whose devilish religious doctrine was the pure sadism of "Destroy the existing society." Other professed Communists were nation-builders. Also, most professed Soviet Communists were Russians, who made the best of the situation in which they found themselves and their nation, under Soviet rule. The latter spirit is manifest in those members of Russia's Academy of Sciences, and like-minded other veterans of the departed state-rule, who seek to rebuild

a shattered, post-Communist Russia today, with the same loving patriotic devotion to meeting “the test of death” which they expressed as citizens serving under Soviet rule.

Thus, as V.I. Lenin might have said, had he lived to experience the present circumstance of the passing of the Soviet system: “Don’t throw out the baby with the bathwater.”

The principled flaw of the Soviet economic system, was certainly not the fact that the development of production was under the rule of a purpose.

All of the worthy acts of mankind, in every society, whether in art or science, in production of goods, in law-making, or political-economy, are always the fruit of an intent, a goal. In all creative acts of the individual mind, nothing occurs without foresight, nor without some reasonable approximation of a plan. Without intent, why should anyone attempt to find a principled solution for a paradox? In production, no general improvement in product or process occurs except through a process of planning and related preparations, such as phases of construction, which may require several or more years before the first end-product of that effort is produced.

As in Classical musical composition, until the composer has foreseen the outcome of the completed composition, the first notes of that composition can not be selected and defined effectively enough to be performed. The nature of the human mind, is purpose, to arrange the practice in the present to efficiently ensure a foreseeable kind of future result. Without acting in such a manner, that we select our actions in the present, under the control of future goals, there is no science, no *agapē*, no *Reason*, and no morality.

The central flaw to be addressed

The problem of the Soviet system was, on principle, the same pervasive error which dominates virtually every economics teaching provided by virtually every university in the world today. In the Soviet case, the problem was typified by Karl Marx’s report, that he had left technological progress out of account in constructing a deterministic image of extended reproduction. This error was not original to Marx; it is the characteristic blunder of every economist whose work Marx studied in the British Museum reading-room, at the direction of the British Foreign Service’s David Urquhart. It is the characteristic fundamental folly of virtually every academic economist, and accountant, in the world today. It is the presumption that the labor of productive operatives is just another commodity, within the linear put-and-take of expenses and income.

The essence of economic science, is that it is the unique power of the human species, to increase man’s power over nature through development and exercise of the axiomatically anti-linear, agapic power of Reason. It is that activity of the human individual, as operative within and without the point of production, which is the sole source of the productive

powers of labor. It is that activity, and no other, which enables mankind to increase the per-capita energy of the system of the whole economic process, while maintaining, or increasing the ratio of the free-energy margin to the energy of the system.

This principle is also key to the essential role of the industrial and machine-tool entrepreneur within the model of modern agro-industrial society known as *The American System of political-economy*. Herein lies the key to a crucial fallacy within the Soviet system.

Exemplary of the point, is the case of the ownership of the “strategic” machine-tool firm.³⁷ Typically, the ownership is represented by scientists or engineers, or both, who transform the existing array of new and carried-forward principles of nature into new designs of products and processes. This requires a management free to place itself at risk, on the basis of confidence in the scientific and related insights which could be developed only within the sovereign confines of an individual mind.

The same principle applies, if somewhat less dramatically, for the case of the entrepreneurial ownership of a modern farm, or other industry, outside the “strategic” machine-tool sector.

The same principle cannot be applied to the same effect for the case of large-scale infrastructural development. The development of infrastructure touches the quality of preparation of entire political areas, beyond the provenance, or immediate concern of privately owned enterprises. The development of national transportation grids, power grids, like the maintenance of national defense, are matters in which decisions must be in conformity with the interest of the nation as an indivisible unity; these are not matters whose policy-shaping can be left to a more or less anarchic aggregation of private ownerships.

Similarly, only the nation-state can ensure the quality of education needed for the labor-force as a whole, or can ensure that scientific progress keeps well ahead of the time when its fruits would become profitable, or even indispensable. Only the state can ensure that combined private and public efforts result in an equitable quality of health-care available to all.

Without the modern European model of sovereign nation-state economy, humanity would not have risen much above the conditions of life during Europe’s Fourteenth Century. Without the sovereign nation-state economy, the conditions of life throughout this planet would now, soon, quickly fall, for generations to come, to Fourteenth-Century levels, or, perhaps much lower. Without the incorporation of the “trump cards” of Russia’s revival into the global equation, the possibility of reversing of the recent thirty years devolution in world economy is perhaps existent, but poor.

37. Lothar Komp, “The Era of Deindustrialization Has Now Reached Its Dead End,” *Executive Intelligence Review*, Feb. 7, 1997.

The path of Russian reforms

by D. Lvov, V. Grebennikov, V. Dementyev

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Introduction

Two experiments—two failures in efficiency

In the twentieth century, Russia became an object for two ruthless economic experiments: after the planning experiment, came liberal radicalism.

Shouts about the failure of the first experiment are heard from every corner. Russia was defeated in global strategic competition with the U.S.A. It has given way to Western countries, in the ability to sustain a high level of innovation, and to utilize all possibilities for advance. There was to be no end of the century worth celebrating for Russia. And that is the fault of the country's own ruling elite.

That elite initiated—and has failed in—the biggest campaigns, which were described as a kind of second wind for a society weakened by overexertion. The hysteria of the anti-alcoholism campaign; of the “strategy of acceleration”; of “electoral democracy” at enterprises; of “social re-orientation” of the economy, i.e., of spending all the money of an exhausted budget on food; of “regional self-financing,” which became a first step in the disintegration of the U.S.S.R.—all these things failed to solve problems such as the Soviet economy's increasing technological lag, the decrease of its efficiency and ability to compete, the growing disproportions (between supply and demand, income and expenses of citizens, income and expenses of the state), the growth of the shadow economy, and corruption trampling upon the principles of social justice and humanity. The losses imposed on the financial and material balance of the economy turned out to be sufficient for the total disruption of the market, planning, and the wage system.

A decisive contribution was made by the leadership of the former Russian Socialist Federation of Soviet Republics (R.S.F.S.R.) when it appropriated the right to control taxes and issue credit. The race between the Soviet Union and the R.S.F.S.R. on the issuance of credit led to a domestic depreciation of the ruble, disruption of the system of settling ac-

counts, and the institution of a barter system for the exchange of goods. The ultimate illusion was aroused, that “other regions are robbing us,” and that it was necessary to separate from the Union in order to improve one's economic position. The subsequent events were thus pre-determined. The majority of the population perceived the disintegration of the U.S.S.R. positively, or neutrally, being fascinated with slogans about Russia's taking leadership in a social-economic transformation, which would allegedly guarantee an increase of living standards, price stability, and social security for the disabled part of the population.

Since the beginning of 1992, the experiment to spur the economy began with radical measures, in the liberals' sense. However, that experiment, too, insofar as it was wrapped up with the political self-interest of the ruling elite, has proven no more economically effective than its “socialist” predecessor, which shaped the present elite.

Among the manifold symptoms of failure of that latest experiment, we could note the following:

- weakening of fundamental enterprises in promising branches of the economy;
- slowing down of modernization in the majority of industries;
- underutilization even of modern capacities, undermining the competitiveness of the goods produced there;
- reducing the potential for internal accumulation;
- a lack of demand, given the technological level of many enterprises, for the skills of a considerable part of their employees.

The catastrophic decrease of the production of industrial products (two times), including science-intensive ones (three to four times), of the gross domestic product (two times), including material production (two and one-half times), means that there has been a sharp decrease of production efficiency, and of opportunities to invest and to support standards of living, without a significant decrease of energy consumption or of the number of employed, which increases the inflation potential in the economy.

Higher rates of taxation, the putrefaction of the state apparatus, the ineptitude of the state administration, the pauperization of the population, and the ideological crisis have led to the criminalization of the economy, establishing organized criminals' domination over many of its spheres, and a merger of corrupt elements of the state apparatus with the criminal business world.

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PATH OF RUSSIAN REFORMS

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МОСКВА

The cover page of The Path of Russian Reforms.

All that defines the necessity of changing the present course. A strategic turn is needed, based upon comprehending the pattern of our past, present, and future in a world which is far from serene. The present report is one attempt at such comprehension.

1. Russian reforms in the global context: Tectonic dislocations in the world economy

The post-war decades have fundamentally changed the character of the world's economy. The world has entered into a new period of its development. It can be characterized by the following strategic elements:

A restructuring of the institutional grounds of the modern economy is occurring. Local and national economies are gradually losing the potential for self-development; they are beginning to be integrated into a single, planetary economic organism with a kind of universal control system, which is called, out of habit, "the market system" or "the free enterprise system." The transnational corporations have come to play a decisive role in defining the character of further development. A total of 37,000 transnational corporations (TNCs), with about 200,000 branches, has embraced the whole planet. It represents a single network, a single system possessing one-third of all the production facilities of our planet, producing more than 40% of the worldwide product, implementing more than half of the international trade turnover, more than 80% of trade in high technologies, and controlling more than 90%

of capital exports. The volume of international trade has increased 10-fold over the last two decades!

The market has acquired the character of a universe, in which technological leadership emerged as the most important factor for success. Countries have divided into some quickly progressing ones, the productivity of which has been higher than the worldwide average, and backward countries, with lower than average productivity. But the market remains the market, and that is why it makes mercilessly short work of those countries whose labor productivity has not been able to rise above the average level.

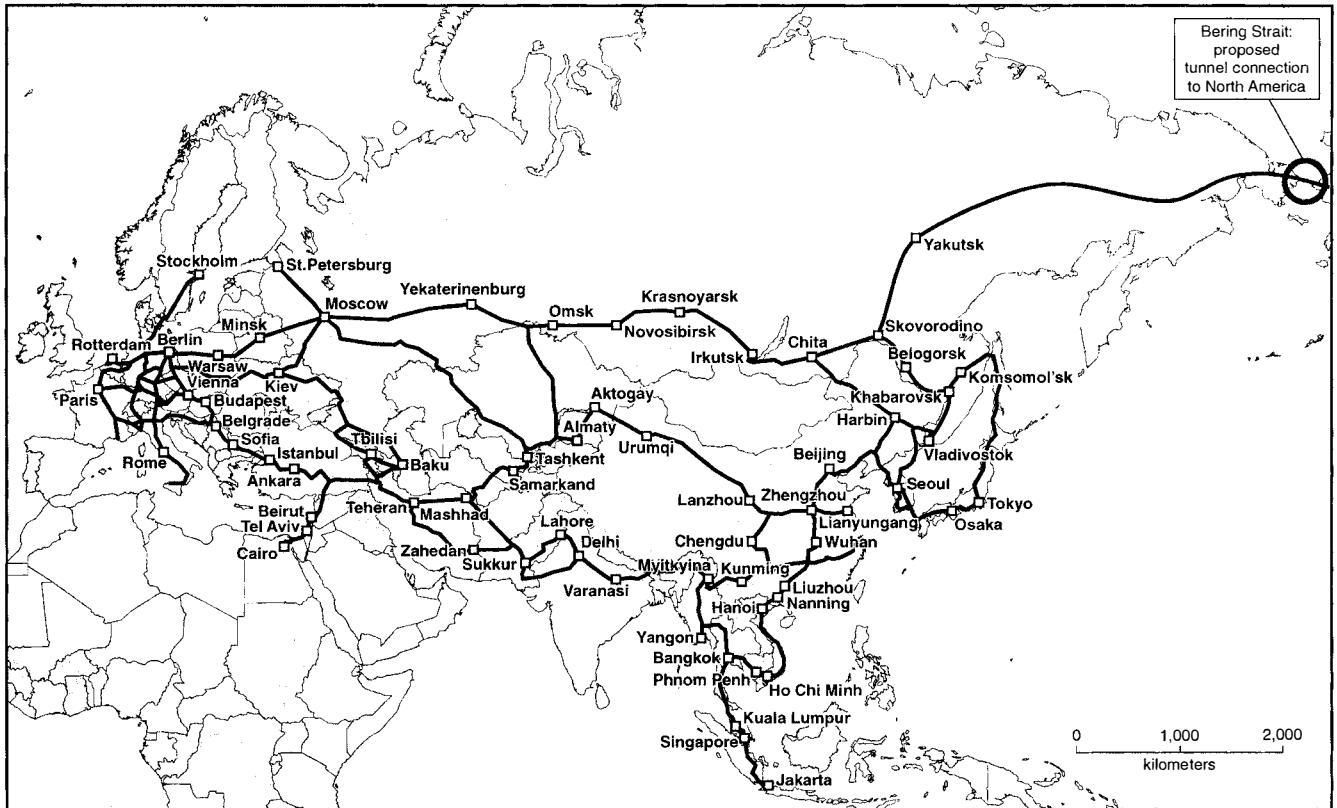
Capital is concentrated in those countries where social labor productivity is higher. What happens with capital in those countries that are usually called backwards, is no exception. Thus, those countries not only are deprived of external investors, but also their own capital will inevitably flee to more successful countries. This process affects not only material capital, but intellectual: More energetic and more talented people emigrate to countries of the "golden billion," draining backward countries of the best they have.

So, as long as the established world order exists, this inexorable process will continue, and intensify, pumping capital, natural resources, and talent out of the backward countries. The action of that pump leads to a steady increase in the stratification of nations. While relatively recently—30 to 40 years ago—backward countries were truly called developing, because they had definite chances for development, and for narrowing the gap with advanced countries, now the backward countries are "behind forever."

Indeed, in order for a backward country to rise to the surface, an increase in labor productivity is necessary. And that requires considerable investments and qualified personnel. They are needed not only to re-equip industry, and to make use of new technologies, but more to create an active and qualified entrepreneurial community. The latter is an absolute condition: No upswing is possible without it. That condition is, at the same time, a consequence of modern technological breakthroughs, and requires an absolutely new understanding of the term "the national intellectual potential."

Whereas, previously, people who were usually counted as part of the intelligentsia—i.e., research engineers, designers, and scientists—were associated with the concept of intellectual potential, now this potential is implicit in many workers' specialized skills. Indeed, there is a whole array of "high technologies," which require an engineer's training to service. That means that only those nations can have pretensions to the development of modern high-technology industries, which are capable of providing a high level of education (and discipline) for the population. These are needed for those who can teach others. And precisely these are lacking in backward countries. The developed countries, however, are able to attract precisely those people who possess the necessary types of skill and training—and yet another form of exploiting backward countries arises!

Eurasia: future main routes of the Eurasian Land-Bridge



One of Russia's "main trumps," is its "unique geographical position in the world community. Russia, occupying the north of the Eurasian continent, offers the shortest and most necessary link (for everyone) between the countries of the Atlantic and Pacific regions: via airplane, railroad, highway, ship, and fiber optics. . . . Large-scale infrastructure programs will enable us to provide a global link between two powerful combinations: the energy-minerals one, and the military-industrial one, on a new macroeconomic basis."

The existing planetary market mechanism doesn't elevate, but destroys, the economies of backward countries, transforming them, at best, into raw-materials appendages of countries with high labor productivity.

These profound transformations are taking place in a world financial system which is currently experiencing a crisis that has become drastically more severe. Its main causes are the arbitrarily expanded scale of fictitious capital: augmented volumes of speculative "paper" assets, groundless increase of external and internal debts of countries participating in world integration, etc. As a result, the financial resources that would be used to sustain the vital activity of physical production are depleted.

Today, more credits go into the U.S.A.'s financial and real estate sphere, than into production. The share of purely financial futures, based on speculation on interest rates, foreign exchange, and securities, in the total volume of futures transactions, increased between 1973 to 1993, from 1.8% to 64.8%. While the Gross Domestic Product of the U.S.A. has increased during the last 10 years only by one-quarter, and

is approximately \$6 trillion, the total volume of derivatives transactions, giving birth to fictitious assets, has increased from zero in 1984, to \$36 trillion in 1994. The rate of increase of total debt in the U.S.A. is also unprecedented. That debt grew slowly between 1956 to 1970, and didn't exceed \$2 trillion. It rose to \$4 trillion by 1980, and, in 1990, passed the \$14 trillion mark. Already in 1990, the total sum of interest payments on debts had reached 35% of the Gross Domestic Product (GDP) of the U.S.A., and it has increased considerably since then.

The debt crisis has gripped the rest of the world. The state debt of Sweden is today \$15 billion, or 90% of its GDP. In Italy, \$1.2 trillion, or 112% of GDP. The state debt of Germany is equal today to 2 trillion marks, or 70,000 marks for every German family. The same crisis has been known for a long time in countries of the "Third World," and lately in the countries of the Newly Independent States (NIS) and eastern Europe.

All those debts exist in the form of nominal financial assets, under whose stormy pressure the first cracks have already

spread across the foundation of the world financial system.

Here is a short chronology of events for only the last few years: the bankruptcy of a series of municipalities in the U.S.A. which invested tax revenues into dubious securities (December 1994); the most impressive crash of the Mexican financial system (December 1994-January 1995); the crisis of the Spanish peseta, Swedish kroner, and Italian lira, as well as the fall of the dollar to the lowest point in its history, in comparison with the Japanese yen and the German mark (first half of 1995); the bankruptcy of the well-known British bank, Barings, caused by the failure of its speculations, as well as the crisis of the biggest insurance company, Lloyd's of London, (February-March 1995); the teetering on the brink of the precipice by the biggest bank in France, and one of the biggest in the world—Crédit Lyonnais (second half of 1995); and, finally, in the autumn of 1995—the series of bankruptcies of the biggest financial institutions of Japan (credit unions Cosmo and Kyushu Shinyu Kumiai and banks Hyogo and Daiwa). The general causes: on the one hand, “bad” debts, investments in low-grade bonds, the crisis on the currency markets and in real estate; on the other hand, the stagnation of the material goods production sphere.

Such are the processes fraught, with conflicts and global menaces, occurring in the world economic system, into which we are striving to be integrated. This striving is without any doubt justified. But what may await us on this path?

What place in the world community is being prepared for us by the present course?

Russia has actively plunged into world business circulation, having widely opened its internal market to the West. But the country turned out to be unprepared for this responsible step. Entering the world market with technological backwardness in many industries, and monopolism remaining from before *perestroika*, Russia has put its economy in a most unfavorable situation. It most certainly has no basis on which to count on an adequate place in world commodity exchange. More likely, its interface with world market will lead to the pumping out of its natural and intellectual resources. The gap between leading countries and Russia in standards of living will steadily increase.

Already, Russia has not only increased its backwardness vis-à-vis the U.S.A. in the size of GDP (from 3.5 in 1987 to 7.2 in 1994), but has been passed by such countries as China and India, which traditionally were among the “outsiders” in the world ranking. So far, Russia remains ahead of these latter countries only in GDP volume per capita. To estimate the prospects for the future, within the present system of coordinates, it is necessary to take into account a number of serious elements which our economy must encounter in the very near future.

First, the extensive exploitation of deposits, their considerable distance from the main consumption markets, and the increasing transportation costs for hydrocarbons, make them among the most expensive in the world.

TABLE 1

Russia at the red line

Indices	Threshold value	Existing in Russia
I. Economic		
1. Decline of GNP from starting level	30-40%	>50%
2. Level of food dependency (% of food imported)	30-35%	50%
3. Funds for science (% of GNP)	2%	0.32%
II. Social		
1. Ratio of income of richest 10% to poorest 10%	10:1	15:1
2. Number of crimes (per 100,000 population)	5	6
3. Level of depopulation (ratio of births to deaths)	50:50	50:63
4. Number of mental pathologies (per 100,000 population)	284	280
III. Political		
1. Level of legitimacy (% of citizens not trusting central government)	40%	60-65%

Persian Gulf oil turned out to be 10 times cheaper than Tyumen oil. And this is true everywhere, even for diamond production. Thus, as we approach world prices, we confront a new problem—limited possibilities to compete in the world energy, mineral raw materials, and metals markets.

Second, we have lost a part of the arms market: 1991 was a turning point, when our arms exports decreased during one year by more than three times! At the same time, arms exports from the U.S.A. had mounted, and at the moment are approximately twice as large as Russia's. However, you see, in 1980 we had identical volumes of sales, somewhere around \$10 billions. This traditional Russian export sphere was curtailed.

Third, the shock liberalization of the Russian economy has led to a situation where now many important sectors, vital for the country, have fallen below the “red line,” where the degradation of the national industrial and labor potential begins (see **Table 1**).

The structure of industrial production has undergone enormous systemic deformation. The share of the raw materials industries has more than doubled during the last five years, whereas machine building's share has decreased by more than 20%, the textile and footwear share by 62%, and so on. The domestic market share of those sectors of national industry has been slashed, and actively taken by foreign industrial corporations. As a result, the multi-sector Russian economy

has lost the self-sufficiency necessary to provide for its own security.

The most anxiety is provoked by the sharp decrease of the share of GDP spent for science and scientific services. The real share of expenditures in that sphere, of decisive importance for the future of Russia, is six times less than the threshold level.

Fourth, investment in modernization and technical re-equipping has become extremely ineffective. The reproduction of capital goods is sharply slowing down, and in some industries, everything is “spent for food.” Wear and tear on basic plant and equipment has reached the critical mark. As a result, the secure function of production-technical systems is quickly decreasing. More and more bottlenecks appear in the economy, in which the probability of accidents of a strategic nature reaches a maximum. The economy is becoming absolutely unreliable. It is constantly in some pre-accident state.

Such are the realities and immediate consequences of the present liberalization of the Russian economy. Its continuation condemns Russia to long years of vegetating in conditions of chaos and internal instability. Moreover, it will be forced to play the role of petitioner before “donors,” who are apt to see economic benefits from Russia’s loss of its industrial potential.

The people of Russia will scarcely agree to such a prospect. That is why other principles and approaches to the reform of the Russian economy, which would be able to make a break with this dangerous course of events, should be put onto the agenda.

Support for recovery

Above all, it is necessary to have a purpose which unites the people, which corresponds best to its historical experience, ideals, and the values incarnate in the culture.

A house with a grass lawn and a car is not suitable as a national dream. A national idea understood literally as a “strong Russia for Russians,” is not creative by its nature, and is dangerously explosive. Russia as a country of the third way (synthesis of East and West), is too dim an idea, and not a specific pattern.

A unifying idea should go back to the principle of “tolerable collectivism” (i.e., collectivism, but of a type that does not attempt to absorb the individual), as a counterbalance to American “tolerable” (not aggressive) individualism and to “intolerable” collectivism, which was cultivated by us in the Soviet period, and was more organically developed within the tissue of Japanese and Chinese societies. Tolerable or personalist collectivism cannot be linked strategically to the values of the American standard of a consumer society. The latter is oriented to a race in standards of consumption which has no limits, and to individual success (or mass, as in Japan) in that race. To produce for the purpose of consuming everything which could be produced, while continually rai-

sing the upper limit with the aid of scientific and technical innovations—that formula of a modern society, “consumption for the sake of production,” provided a powerful motive force for the post-war economic rise of leading countries of the West.

The global threats, with which a further expansion of the consumption society is fraught, are evident. It leads to ecological and social catastrophe, to the demarcation of a world of the poor and a world of the rich. An international movement called the “doctrine of sustainable development” seeks a way out of such a situation.

Enthusiasts of that movement naively believe that, having introduced appropriate international norms, it will be possible to pacify the consumption society: The latter would limit itself, i.e., would saw off the limb on which it sits. Another option is more realistic and more appropriate: the appearance, in the role of leaders, of countries of a new social type, with different systems of values and different ideals, proposing a more attractive way of life to the people than the way of life of the American type. The possibility of Russia becoming one such leader has not yet been lost.

This is a question of a way of life, and the corresponding organization of production and consumption, which can be expressed with the formula “society of spiritual and physical health.” There are investments into a human being, and a system of new standards of living (level of health, education, provision of other social benefits, including security and individual freedom—i.e., a whole set of living conditions in the widest sense). Science and the entire scientific-engineering sector of the economy are oriented to the growth in effectiveness of such humanitarian investments, and to the accessibility of the new living standards.

The high quality of life, provided by the new society, is of principal importance. It is the quality of life that must attract people, in order to pull them away from the idols of a consumption society. The guarantee of the ability to compete, of survival, of strategic victory in the historic evolutionary process—this is where the driving force of economics and society lies, which provides the forward motion. That driving force will come to replace the force of corporate and organized enterprise, in the production and consumption race.

Thus, a new image of Russia in the world, the perspective that would unite its people, appears to be a society of tolerable collectivism, providing a high quality of life.

It is impossible to achieve that image, without a clear understanding of the resources, which would help the country to get up off its knees, to rejoin the family of leading powers of our planet, and to acquire the feeling of self-respect without which people cannot feel they are fully human and provide for the future of their children in their own country. All that is not a nationalistic myth, but a set of real opportunities, which will help us to stay afloat in the harsh whirlpool of passions, in the planetary game for survival.

So then, what are our main trumps in that game?



The Lenin, the world's first nuclear-powered icebreaker, under construction in 1958. (Inset) The Lenin under way in 1961. "The Russian polar route is 2 times shorter, and 1.6 times cheaper, than any other sea route 'from the British to the Japanese.' Its year-round exploitation could breathe new life into our nuclear fleet, into the development of the northern regions now living in poverty."

First, there is the nation's intellect, its education. Surely, many people have been thinking about how it could have happened that, after the most horrible war known to mankind, after incredible disaster and the loss of many millions of lives, our country, in the unbelievable space of 10 years, became the second-ranked scientific-engineering power in the world. There are many reasons for that, and the national education system is not the least among them.

Russia deserves a future, but only on the path of preserving and developing education. All-round education of the population is the main support of the nation.

Second, there are scientific schools which have traditionally defined the image of Russian science.

Only because of our scientific schools, did our higher education have such an excellent level, from the time of the very birth of universities. That explains much about the post-war recovery, about our ability to compete with the U.S.A. in the newest technologies over decades.

One of most important conditions for reviving Russia, is to preserve our scientific schools. Society, the state, must follow an old peasant principle: "If you want to have a good crop, keep the seeds safe at all cost."

Third, there is the unique geographical position of Russia in the world community. Russia, occupying the north of the Eurasian continent, offers the shortest and most necessary link (for everyone) between the countries of the Atlantic and

Pacific regions: via airplane, railroad, highway, ship, and fiber optics. The Russian polar route is 2 times shorter, and 1.6 times cheaper, than any other sea route "from the British to the Japanese." Its year-round exploitation could breathe new life into our nuclear fleet, into the development of the northern regions now living in poverty. And, the creation of necessary infrastructure would open a way to storehouses of as yet unexploited mineral resources. Large-scale infrastructure programs will enable us to provide a global link between two powerful combinations: the energy-minerals one, and the military-industrial one, on a new macroeconomic basis.

A new industrial image of Russia will be formed step by step, the idle capacities of defense enterprises will begin to work, there will be a demand for the scientific potential of the country, and life will be stirred up in collapsed territories and branches of industry.

Fourth, the accumulated production capacities in different branches of industry, which are able to satisfy a considerable share of internal demand, and to provide large supplies for export.

Now, those capacities are idle, for the most part. That is a very difficult problem of our reality. Indeed, the capacity of the domestic market depends, first of all, on the population's living standard. When the population is continually growing poorer, market capacity steadily falls, too, and the wealth of the country inevitably leaks abroad. And how could the

population not grow poorer, when the production of virtually all kinds of commodities is collapsing?

Life in its present menacing form unites all the productive forces of society in common misfortune: Today production is curtailed, tomorrow a banking crisis appears, a little bit later it will be the turn of the small businessmen, and the unique specialists will remain out of work. There is common root for that misfortune: the decline of our internal market.

Today it is fashionable to talk about how inefficient labor is more damaging, than the combination of overt unemployment and some assistance to its victims from the state or private benefactors. And how it is better for everybody, if full employment is sacrificed to the so-called principle of the "maximization of the wealth" embodied in the exchange value of production. So, step by step, society's perception of this striking picture is blunted—of whole sectors, territories, and cities decaying, not to mention professions dying out, and the national productive forces coming to a standstill on an enormous scale.

Reconstruction and revival of the internal market, and the preservation of employment, must be raised to the rank of priority tasks of economic policy.

Those are the supports for a renewal of Russian economics. A renewal of economic doctrine is required to turn reforms toward raising the effectiveness of the existing economic potential, for the sake of Russians; it is necessary to refute the myths that obscure the essence of the ongoing social-economic processes, and that pull in the wrong direction, away from the real purposes and methods of transforming the economy and society.

2. Dead ends of the reforms: myth and realities

Privatization without creation of an efficient owner

Privatization is a key element of the new mythology being implemented in the official Russian reform policy. A forced shift of the greater part of former state property into private hands was proclaimed as a main, if not decisive, prerequisite for the "transition to the market."

It may be noted that that purpose has now been achieved at an unprecedented pace, and on an incredible scale. In fact, the state has withdrawn from the full exercise of even those property rights which it has not handed over to private juridical and physical persons *de jure*. The elimination of obstacles to commercial activity by officials—from the executive branch and those working in management of enterprises which formally remained state property—opened the road to the embezzlement of public funds, and to plundering of state property by mutual efforts of the privatized and unprivatized sectors of the Russian economy. The state, unable to effec-

tively defend its property (to implement with respect to its own property, the "holy" principle of property which it proclaimed) is trying to compensate for that by violating the rights of private owners, and applying purely authoritarian means of economic pressure—through tax pressure, manipulations of budget spending, and direct participation in "fights" between opposing economic groups of "new owners."

Russian privatization has fulfilled the task of dismantling the economy's centralized control mechanism. It put the vast mass of national property at the disposal of a narrow circle of persons, without any supervision (for that reason, it was catastrophically devalued). This was done partly by transfer of the right of ownership to them, but chiefly by securing effective control over joint-stock companies, in contrast to the atomized property rights of millions of stockholders.

It is understandable that privatization of this type could not create a mechanism of mutual responsibility among private subjects of the economy, which would substitute for the mechanism of responsibility by state enterprises in an economy directed by command. As a result, the image of the "efficient owner," as a central figure of the advertising campaign for the government privatization policy, turned out to be hollow. It is out of place to put the blame an insufficient consistency in the privatization policy.

From the very beginning, a false aim was stated: Instead of the creation of conditions for free civil circulation of property rights (use, management, deriving profit, etc.) the accent was put on the "distribution of property," the transfer of the owner's title.

The dogmatic idea behind this, was that the main problem in property relations was the owner's title—to whom a thing belonged—and that private ownership of property is the most efficient.

There are no decisive scientific arguments behind this sort of belief. World experience doesn't give us any convincing examples of preference for private property over other forms, except for family and small businesses. As for large industry, which defines the face of the modern economy, private property, in a certain sense, becomes a brake on its development.

Actually, the problem lies elsewhere. It was necessary to create a free, competitive market of property rights (rights of access to a property). The owner's title could be calmly excluded from civil circulation, without any consequences for the efficiency of production. Moreover, it could be monopolized by the state. The form of state-titled property is preferable to private ownership, and it is understandable why. Lacking any palpable advantages, given modern methods of economic activity, privately titled property is associated with noticeable losses for society. Those are, first of all, comparatively higher transaction expenses for defending the property title from a variety of persons; second, there is the burden of rent payments to the owners of the property title, the source of which is the relevant sort of "artificial monopoly" which is not justified by any useful economic function.

It is well known that this fate has a monopoly on the universally accepted sign of exchange value, or the right to issue paper currency; the evolution of market relations led to a split in the economic functions of money, so that one of those functions (to serve as an instrument of circulation and payment) assumed the appearance of a simple symbol. Should we have the right to make an analogy between that process, and a combination of factors pushing the state to monopolize the property title as well? After all, its economic content is being gradually “compressed” to a purely symbolic function, as property rights are dispersed, and a subsequent sprouting of rights to use, to manage, etc. occurs from the property title onto which they were organically grafted at the outset.

We should recall that, simultaneously, the evolution of economical institutions has given rise to the fiction of a “juridical person.” The usual arguments on behalf of the so-called holy right of private property do not apply to it. The privately titled property of a juridical person is one of the many chimeras of the modern market society which, without a doubt, plays a certain role in its mechanism of function, but only for as long as that mechanism preserves its enigmatic image as seemingly sensible and indisputable.

The widespread thesis about the key role of private property in a modern market society doesn’t correspond to the present situation in highly developed Western countries. The historic function of private property is to help the process of economic autonomization in a differentiated social-economic system: the separation of the direct producer from the means of production, or the initial accumulation of capital. Nowadays, that historical function has been exhausted. The corporation, as the leading institution of modern private, state, or mixed state-private enterprise, is based on the separation of property from management. Diverse forms of interaction of corporations are based on this separation; further divisions continue already, within the realm of property rights themselves. The property title is separated from the right to use, to sell, to lease, or to manage in trust. The rights themselves are allowed to function separately from one another. The future belongs to the shift of the property title into the hands of public authorities, while preserving the free circulation of all the other property rights in private economic turnover, i.e., the property institution as such. That is a condition of no small importance for the effective use of national property on a huge scale.

Liberalization of economy without efficient management

The total destruction of the state monopoly over economic activity was the main concern of the liberal-privatization course of reforms. It was believed that there was no other possible way to construct a new economy, with enterprises of different property forms competing. Freedom of self-organization, according to “civilized” market rules rigorously obeyed by all participants, is supposedly a necessary and suf-

ficient condition for lifting the economy to the level of leading modern countries.

However, that scheme provokes some serious doubts, even if one supposes that the transition from an economy controlled by directive, to a free enterprise economy, takes place under ideal conditions: “As we wish, so we shall do.” Obviously, the real course of the reforms could not fail to strengthen the positions of the opponents of the liberal doctrine of non-intervention into the economy.

At the same time, some other, no less important facts of the present economic-political situation, were obscured in discussions about the necessity for state control.

The state’s intervention into the Russian economy under the new economic conditions, has scarcely decreased in comparison with the directive planning system. Violence against the economy is continuing, but now in a new, liberal guise. Moreover, the real course of events actually confirms the inverse—a decrease in the controllability level of the economy. A gap has formed between the degree of state intervention and the degree of controllability from the top. The first remained essential in recent years, while the second has sharply narrowed.

The continuing intervention of the state into the economy is not accompanied by any improvement of results which would be useful to society. And that is the main thing, as everybody knows. Why is this so?

First of all, it is so because limitation of the possibilities of controlling the economy from the top has not been accompanied by the development of “organic” control systems from below. The market can not function without that, no matter how much we were to broaden the functions of the top control level. The modern market shows the inverse picture: reduction of the functions of state intervention, while they are compensated for by developing functions from below. Such compensation has not occurred in the Russian economy. First, the controllability failure from above is so essential that it can not be compensated for at the organic level in principle, even under the most favorable conditions for that. Second, those conditions in Russia are very unfavorable, at least so far. They are discussed as factors hindering the development of market institutions, or even blocking such a path of development.

But one reason should be mentioned especially. It is impossible simply to delegate control functions downwards. Something must be given upwards in exchange. That “something” is not only the obligation to follow the law, to pay taxes regularly, etc. We are talking about such fundamental concessions by business, as willingness to cooperate with the state in attaining national goals, and voluntary self-limitation of the freedom to pursue private interests, for the sake of the interests of society. This cooperation is impossible, in principle, to define in a market form of economic contract. The development of institutions orienting the business community’s activity in that direction, and controlling it with both

non-market methods and, at the same time, indirect administrative-authoritative methods, is a constant line in the social-economic evolution of countries with highly developed market economies. It is possible to assert that those institutions have served as a counterbalance to the destructive factors rooted in market mechanisms, much more than as means of direct state control of the market.

Cooperation between the business sector and the state, expressed in mutual obligations (side by side with social partnership between employers and employees), is usually associated with the idea of corporativism. The increasing number of its supporters in our country should pay attention to one important circumstance. Corporativism as a system of institutions for social responsibility on the part of business, bears fruit only in conjunction with a mechanism for its economic responsibility, when a good intention "to serve the motherland" is implemented basically at one's expense, at one's own risk. If this is not the case, corporativism cannot be evaluated otherwise than as an ideology of consolidated cooperation among a bureaucratic class, a financial-industrial elite, and a segment of employees fed by them, in plundering budget funds and other national property. Here, there is a question of voluntary self-limitation, but now it is on the part of the state, for the sake of the mercenary interests of some persons.

It would seem that present Russian conditions confront us with a similar phenomenon, and that the ideal of loyal corporativism is, in turn, the next myth. It looks very attractive, in the eyes of the broad Russian public, as a liberal myth, associated with national ideals of conciliation, collectivism, or the so-called Great-Power-to-be. That does not make it any less dangerous.

Russian corporativism as a joint venture for plundering the state treasury

Doctrinal feuds between consistent liberals and consistent advocates of the revival of an economy controlled by decree, are more and more muffled by a growing chorus "for an idea" of the corporatization of Russian society. The thesis about the necessity of consolidating the economic and political interests and tasks of the state, and large centers of economic power in the private sector, up to and including their merger into various notions of organizational economic structures, stands at the center of the corresponding programs and political streams, which pretend to be integrators of social forces, for which the extremities of radical positions, from one side or the other, are unacceptable. For that purpose, the state should, in every way possible, help to create such centers, and to build up their power under the wardship and control of the state.

Today many voices are heard on behalf of state support for national enterprises, from which a turning point in the economy is awaited. Under present conditions, however, in the absence of a favorable investment climate, the major part of monies allocated by the state for good purposes is misap-

propriated by a retinue of corrupt officials and cunning pragmatists. But the most important thing is that those "privatized" funds don't remain to work in the country's economy, but are exported abroad.

When one refers to a positive experience of state support for advanced branches of the economy in dynamically developing countries of the "new wave" (South Korea, Taiwan, Thailand, etc.), then, first of all, it should be noted that the corresponding programs were adopted under conditions of a favorable investment climate, and the financial support was obtained by efficient entrepreneurs.

Does it have to be said, that state support programs which ignore those absolutely necessary conditions, under a banner of restructuring the relevant branches of the economy, are mostly condemned to failure? Moreover, they are profitable, first of all, to "pressure groups" competing with each other for pieces of the state pie, the purpose of which is to edge competitors out by means of lobbying for their quasi-programs (providing some privileges to controlled enterprises) of economic restructuring, and to parasitize successfully at the expense of the state. One should not close one's eyes to the possibility of the same kind of degeneration, in the movement for forming financial-industrial groups, with all the indisputable arguments existing in their favor.

Russian monetarism as an instrument and a victim of the destruction of the financial system

An attempt at fast transition to the liberal market economy has driven Russia into an unprecedented financial crisis. There is a lack of money for literally everything: wages, pensions, payments for defense orders, debt service, investments, and research and development. The basis for the country's existence is undermined, not only for the immediate future, but for the foreseeable future.

Meanwhile, the financial crisis is created to a considerable extent artificially; it is not conditioned by a lack of production capacity, raw materials, and labor resources. Merely, the mechanism of the economy built by the reformers is not capable of bringing together present resources, so as to create a maximum of products and profits.

The Gross Domestic Product of Russia in world prices in 1990 was approximately \$400 billion, now, about \$200 billion. The main reason for the fall in industry and agriculture was the unprofitability of enterprises, in terms of world prices and lack of competitiveness in the international market.

However, unprofitability is not yet the final evaluation of one or another product. If it provides some added value, then that is good as a contribution to a final product—and through that, to the country's finances.

We shall hardly come out of the crisis without making use of unprofitable industries, which are able to create some added value. The money for current expenses and development is needed immediately because, some time later, there will be nowhere to invest it. At this point, attention should not to be



Students in Russia explain their experiments at a science competition. The nation's intellect, its education, is a key asset. "Surely, many people have been thinking about how it could have happened that, after the most horrible war known to mankind, after incredible disaster and the loss of many millions of lives, our country, in the unbelievable space of 10 years, became the second-ranked scientific-engineering power in the world."

paid to the technological backwardness of present production facilities; we have no others. The backwardness is to be overcome, in the long term, on the basis of scientific-technological progress and targetted investments.

Unfortunately, we have to note that the money-credit sphere is not capable of satisfactorily fulfilling the main function, for the sake of which it exists—to provide for the efficient use of resources. This is evidenced by the absolute dominance of short-term credits on the money markets, which are given with such high interest rates, that their use for other than speculative purposes is effectively precluded. By virtue of that, the banking system itself is very unstable, which is confirmed by the recent crisis on the interbank credit market. The danger remains of a large-scale "collapse," fraught with grave consequences for whole country (new losses for depositors, paralysis of the payments system, new "barterization" of the economy, a return to administrative methods of resource distribution, up to and including a rationing system).

Such a situation is, to a considerable extent, a result not so much of particular errors in shifting the banking system onto market rails, as of fundamental defects in the Russian model of economic reform. The chosen method of transforming property relations has led to the regular phenomenon of distinct groups of persons having large capital (state-owned, in the first turn), not belonging to them, at their uncontrolled disposal. It is understandable that the credit service to the process of "spending on food," the economic potential created over decades, on a broad scale and in various forms, yields a

much higher return (of course, from the standpoint of the banks, not society's) than investments in production. The absence of clarity in many property relations cases, and imperfect procedures of collateralization, led to the creation of some barriers in the path of issuing credits for production, which are difficult to overcome. The general circumstances of very high inflation rates, subject to constant change, make it impossible to estimate adequately the effectiveness of long-term investments. Finally, the state's ever-increasing borrowing on the credit market led to a growth in interest rates and to the "edging out" of private investments.

The character of the current economic policy carried out by the authorities cannot but influence the functioning of the money-credit system. So, an attempt to solve all questions by means of tightening monetary and fiscal policy unavoidably leads to a conflict among the goals (coming up short for everything) promoted by the government: Some improvement in the struggle against inflation and the stabilization of the exchange rate of the ruble are accompanied by an intensification of the investments crisis, threats to the effectiveness of export activity, and narrowing of domestic demand, while considerable production capacities remain. Thus, the tight-money policy itself, under conditions of restriction only by monetary and financial instruments, creates the conditions for a retreat from its consistent implementation.

Certainly, there do exist problems connected to the Russian banking system's development. Actually, the commercial banks turned out to be unprepared to function, when the

possibilities for speculative investments sharply narrowed, first of all in connection with stabilization of the ruble exchange rate. A situation when the rate of the ruble rose, while a high level inflation persisted, was especially unfavorable for them. The balance sheets of many banks are burdened with a large amount of “bad debts,” which creates a long-range menace to their solvency. A considerable part of those debts is connected with the irresponsible financial behavior of the Russian executive branch, which believes that it is normal not to pay for products it ordered to be produced, for the production of which, credits were received from banks. Not infrequently, especially in small banks, there is no professional staff that would be able to make competent decisions. There is a widespread pattern, where big industrial enterprises happen to be charter members of banks, and those enterprises are used to receiving credits under privileged conditions. Such a practice, as a rule, leads to a deterioration of the balance sheets of the banks involved, and pushes them to take risky decisions in order to compensate for “a lack” of money from their privileged clients. It stands to reason, that this all leads to an allocation of resources that is not rational, on the scale of society. Finally, it is rather typical that the stockholders of a bank don’t maintain any control over its activity, and the latter, consequently, is oriented mainly to material problem-solving for the personnel, and to forming of auxiliary attributes of a well-to-do company.

It should be kept in mind that, because of the features of the banking sphere—control over huge resources belonging to millions of depositors, and the direct impact on the state of monetary circulation in the country—it is everywhere under special control of the state. Some ideologized approach, in the spirit of *laissez-faire*, is the least admissible here, because its consequences can be extremely grave for the economic and political situation in the country. It is significant that when the Pinochet government in 1982-83 discovered that, because of the hasty liberalization of banking activity, and the absence of proper control over the banks’ credit policy, the money-credit system was at the edge of collapse, and the interests of depositors and foreign creditors were threatened, then the nationalization of the commercial banks was accomplished vigorously, which enabled them to put themselves into a normal state over several years.

Unfortunately, today, one forms an impression that nobody knows about the real situation in the banking sector, about the depth of the crisis which overwhelmed it. Such a situation is utterly inadmissible and must be overcome.

Russian anti-communism as an ideology of anti-social market economy

A slogan was put forward at the crest of the struggle against totalitarianism: No ideology! The idea of socialism was rejected all at once, as having been discredited over the decades of totalitarianism in the U.S.S.R. and its satellites.

But it is preferred not to speak about capitalism as a goal, rather to shield it carefully with advertising about a “socialized” or even “social” market economy. A simple formula is drummed into the masses: The market economy is based on private property, and that means it is incompatible with any ideology. And, in general, the market gets along without any ideology, because it is governed by day-to-day interests, not by utopian fantasies about the brilliant future.

The presence of ideological nihilism as the mood of some part of our society is an unavoidable product of our past, when distrust in the propagandistic exhortations of the authorities was advisable, and the gap between the propaganda and the real situation provoked a natural disgust at the turgid words issuing from the mouths of the authorities, which were customarily identified with ideology. But the ostentatious ideological nihilism of the ruling elite is a hypocrisy that poorly conceals its adherence to its own ideology; it is easier to hold power, either with the aid of everybody’s trust in some single, governing system of higher values, or, if that is not possible, by means of the deliberate humiliation of the ideological form of thinking, as such. The old formula, tested long ago in application to political and economic interests—“divide and conquer”—sounds, in this instance, like “belittle and conquer.”

Man needs ideology, for orientation in a swiftly changing process. It not only answers questions like “where and why?” but helps him broaden his “circle of solidarity,” and occupy an active place in the life of society. The freedom of ideologies, and of associations according to ideology, is one of the highest values of democracy.

To remove the taboo from ideology, as a supposedly false form of social consciousness bred by totalitarianism, means to remove from socialism the disparaging label of harmful “ideologization.” And, to go back and discuss it in its essentials.

Today it is no secret to people without a special economic education, that one of the decisive factors in productive competitiveness is the educational and professional level of the employees, the degree of development of their creative inclinations.

Modern production attaches great economic significance to the state’s care for the quality of life of the labor force. “Civilized” capitalism recognizes it as an obligation of society, in the person of state power that is responsible before all the citizens, to provide by all lawful means, the right of citizens to sustain their life, either by aid in finding employment, or by adequate material support for the unemployed. That is the basic principle of the “state of general welfare” (or, welfare state), which gradually came into existence since the middle of the last century, and in the present one has advanced further, in the form of the imperatives of the “social market economy.”

Such imperatives are:

- maximum development of the physical, intellectual, and spiritual-ethical potential of the country;
- formation of a firm layer of labor motivation, which responds to market requirements and is oriented to the positive reproduction of “human capital”;
- creation of the institutional and social-economic prerequisites for self-realization of the citizen’s capabilities.

Who could seriously discern even weak traces of those imperatives, in the activities of the Russian authorities?

The condition and effectiveness of utilization of human capital in Russia is one of the painful points of the nation’s transformations.

Our society is sliding down into a demographic, labor force, and industrial catastrophe. The weakest link here is the factor of the labor force.

Of course, the physical, industrial production apparatus is in a dangerous condition of disrepair, badly needing maintenance, repair, and modernization of various degrees of complexity, duration, cost, and influx of investments.

Only the existing trained specialists are capable of handling all that in a professional way. But they are threatened with either directly dying out from poverty, or disqualification due to a forced shift to other occupations, or emigration, i.e., the loss of their capabilities for the country.

It is not possible to postpone an urgent and radical increase in the standard of living of valuable personnel, as well as that of the population’s non-protected sex/age groups (because of irreversible changes in demography) until some future recovery. That improvement must be a prerequisite for a recovery, not a result expected afterwards, otherwise there will be nobody left to restore the economy.

The most dangerous manifestation of social irresponsibility by the state, is that it essentially entrusted people’s fate to some forces who are building up their wealth by ravaging and degrading society; it connived at an anti-social undertaking, marking time before taking a decision to introduce tough graduated taxation of personal incomes (which happens to be the customary civilized practice of countries that have been able to achieve a turnaround from collapse to recovery) and, what is most important, it replaced the task of radically transforming the country’s management system into a healthy condition, with chasing the chimeras of financial speculation.

Russian radical reformism as the latest stage of ‘real socialism’

The radicalism, in many respects, of the Russian reforms of 1992-1995 cannot be denied. During all those years, however, there was a deliberate deficit of radicalism in a key sphere of the economy—the effective functioning of enterprises, and production as a whole.

Neglect of increasing the efficiency of production characterized the entire Soviet era. Although attention was paid to

reducing costs, the efficiency of investments played a subordinate role, by comparison with the achievement of a high rate of production. The growth of scale, however, under conditions of limited natural and labor resources, inevitably leads to a decrease in economic efficiency. As a result, the Soviet economy lost its competitiveness in the growth of productivity, which is a key issue for success in the long run. It is necessary to recall those factors, since many people have already forgotten why the present systemic crisis arose.

In a sort of “relay race,” the habit of ignoring the interconnections among the structure, growth rates, and efficiency of production, was picked up by the government consisting of liberal-democrats and liberal-bureaucrats. That alliance lasted for a surprisingly long time, insofar as they were united on only one issue—declaration of the rights and freedoms of the state, while its obligations and responsibility to the people were absent. Actually, neither one nor the other repudiated the right to impose taxes (and, consequently, tax privileges as well), to issue money, and to control the monetary and credit system. But the state’s obligation to obey the law and to provide for the growth of production, investments, and the standard of living for all social groups was denied, until the next election of the head of the executive branch.

That is evidently the explanation for the fact that the economic indices (labor productivity, energy and material consumption, rate of profit, efficiency of investments, competitiveness, etc.) were dropped from government documents. What remained were inadequately informative indices, such as the rate of inflation, budget deficit, and volume of the Gross Domestic Product. At the same time, an evaluation of the dynamics of labor productivity provokes no optimism.

It is seen that 1995 was not a turn-around. The share of profit in GDP is especially alarming. It should be noted that this is chiefly an accounting effect. The system of accounting, in recent years, has led to an essential overstating of profit, given the rate of inflation. That means that if an accurate calculation of all indices were made in constant prices, many sectors and regions would show negative profit. Thus, the state, by collecting the profit tax without taking inflation into account, has taxed de facto losses, thereby undermining the economy’s ability to accomplish even simple reproduction. That phenomenon is widely known, in the form of enterprises spending their depreciation sums “for food” [on current expenses], or using their net profit to replenish devalued working capital, or incorporating into their prices an excessively high profitability rate, necessary to ensure even simple reproduction, with the attendant growth of the inflation potential in the economy.

On the whole, the conclusion can be drawn that in 1991-1995, the action of the basic factor which led to the Soviet economy’s collapse increased—the decline of economic efficiency. That conclusion is clearly confirmed by the data on productivity dynamics (see **Table 2**).

TABLE 2

Labor productivity (calculated according to Gross Domestic Product)

(1991 prices for sectors of the economy in 1990-95)

Indices	1990	1991	1992	1993	1994	1995
Economy as a whole						
Labor productivity (thousands of rubles per capita)	19.4	18.8	16.6	15.4	13.8	13.5
Annual index	96.9	88.1	92.6	96.0	98.0	na
Index, 1990=100.0	100.0	96.9	85.4	79.0	71.1	69.7
Index, 1992=100.0	117.0	113.5	100.0	92.6	83.3	81.6
Industry						
Labor productivity (thousands of rubles per capita)	24.3	23.4	20.2	17.6	15.6	16.2
Annual index	96.7	86.2	87.1	88.5	103.7	na
Index, 1990=100.0	100.0	96.7	83.6	72.6	64.2	66.2
Index, 1992=100.0	120.0	116.1	100.0	87.1	77.1	79.9
Agriculture						
Labor productivity (thousands of rubles per capita)	24.3	19.7	17.3	16.6	14.8	14.8
Annual index	96.7	87.8	95.9	89.4	100.0	na
Index, 1990=100.0	100.0	95.0	83.3	79.9	71.5	71.5
Index, 1992=100.0	120.0	113.9	100.0	95.9	85.8	85.7
Construction						
Labor productivity (thousands of rubles per capita)	15.1	15.2	11.1	9.7	9.2	14.8
Annual index	101.0	72.1	101.6	87.3	95.0	na
Index, 1990=100.0	100.0	101.0	72.8	74.0	64.6	61.4
Index, 1992=100.0	137.4	138.7	100.0	101.6	88.7	84.3
Transport and communications						
Labor productivity (thousands of rubles per capita)	17.9	17.2	14.8	12.3	10.2	9.9
Annual index	96.1	85.8	83.3	82.8	97.0	na
Index, 1990=100.0	100.0	96.1	82.4	68.7	56.9	55.2
Index, 1992=100.0	121.0	116.6	100.0	83.3	69.0	66.9
Trade and public services						
Labor productivity (thousands of rubles per capita)	27.1	26.8	25.8	22.3	22.6	20.9
Annual index	99.1	96.1	86.4	101.3	92.8	na
Index, 1990=100.0	100.0	99.1	95.2	82.3	83.3	77.3
Index, 1992=100.0	105.0	104.1	100.0	86.4	87.5	81.2

Moreover, the quantitative decline in efficiency has already become qualitative, irreversible, and lethal for certain sectors and enterprises.

The special menace of the future is the condition of our national science, which is the sphere where the whole foundation of progress in science and engineering is laid.

3. Urgent anti-crisis measures: restoration of living standards

Russian citizens today are living under such conditions, that no strategy of reforms, even the most effective one, can be implemented without an immediate decision to alleviate

the crisis condition of the country's intellectual and labor power.

That is the distinctive feature of the current moment, reflecting the dead end of the reform policy being implemented.

But to change it now, not just one, but two interconnected problems have to be solved. First, urgent measures are needed to restore the pre-reform standard of living, and second, to provide for the stable growth of people's wealth, which is possible only on the basis of a no less stable raising of productive capacities and the efficiency of their utilization. The solution to the first problem is a necessary prerequisite for solving the second one.

What are our real possibilities to create such conditions; what is the essence of the urgent next stage for the rebirth of Russia?

It is clear that tinkering with the budget is an ineffective tactic, suitable only for social demagoguery.

But, the real source of a quick mobilization of the resources for survival is to close the huge breaches in our resources and stop the plundering of our means of sustaining life, which is due to the dense growth of a thicket of uncontrolled criminalized business, and to legal forms of anti-social cooperation between officials and the private sector; and, to effect a radical termination of the most dangerous social polarization, which has redirected the flow of profits and essential goods to the benefit of anti-social groups (looters, contraband smugglers, second-hand dealers, etc.), who make their fortunes by ravaging the national economy.

The reversal of the dangerous parameters of poverty could be accomplished, as was done in many countries, by the redistribution of aggregate personal income (API) through graduated taxation of groups having high income, and transfers to the benefit of the indigent. Such measures have all the more solid foundation, the greater the polarization of incomes "achieved." By the most modest estimates, the unevenness index in Russia has grown three times over the last three to four years. A vast part of the API, sufficient to normalize the standard of living for the majority of the population, is misappropriated by a numerically small layer of the *nouveaux riches*. The artificially created poverty of the masses has become one of the main hindrances to reviving production and the domestic market.

The necessity for urgent measures to improve the life of the masses in a general form, and the usefulness of a progressive redistribution of income, are acknowledged willingly enough. But particular proposals in that area encounter a wall of silence, and suffer from the inaccessibility of reliable information. Nevertheless, present data are sufficient to estimate the possibilities of the proposed program.

While in 1989, 55% of the API was earned by the "lower" layers of the population layers (which may be termed "middle class"), now, that figure is only 31.4%, and 57.5% of API is earned by the "upper" layers of the population. Their share may be significantly understated, due to the fact that the statistics do not take into account the actual amount of the API. While API in western countries is up to 80% of GDP in Russia that figure is less than 50%. Nevertheless, the redistribution of 13.3% of only the "visible" amount of the API would enable us to increase the wealth of 60% of the population 1.5 times, at the expense of retention of less than 24% of the income of the high-profit layers, and thus to eliminate that poverty level, below which up to 40% of the population is now living.

The advantages of the proposed approach to "starting" to overcome poverty are:

Self-sufficiency. One should not resort to redividing the miserable state budget, or to foreign aid. Greater pressure on the super-profits, to make it possible, besides giving allowances to poor people, to boost the revenue side of the budget

through taxation of individuals, would not be an excessive measure, either (in the U.S.A. and in Western Europe, 44-46% of budget revenues are derived from personal income taxes).

Fast results (if the tax service and the social support systems are strengthened).

Non-inflationary character. The issuance of instruments of payment is not required, because the same amount of money is redistributed.

Favorable conditions for developing the domestic market and national production. The rich layers are bad purchasers of articles of mass consumption, because of the scarce supply and their preference for expensive foreign goods and services.

Avoidance of a "crude levelling" approach. (Although even rich countries, under crisis conditions, intensify leveling measures, up to and including going onto a rationing system.) The proposed model preserves the stimuli to move into a higher income bracket, which can be intensified to the extent that it furthers the growth of GDP. The differentiation of incomes would take into account the real contributions of given population groups to the economy's growth. So far, it is very doubtful that the *nouveaux riches* would help the economy's recovery, as surely as they have helped its decline and destruction.

Evidently, there are also other sources for financing urgent anti-crisis measures.

The distancing of the public and private sectors of the economy

The most important measure is (as well as in the whole business of the economic revival) a radical restoration of a healthy state system of state and economic management.

What should actually be done, first of all, is to protect the treasury against plundering, by fully restoring the state's right to state property, and putting an end to all parasitical forms of "cooperation" between the state and private sectors of the economy, for the benefit of distinct persons and their corporate organizations.

To do this, it is necessary to grasp a fundamental change in the concept of a two-sector economy.

- The private sector should function in a market regime, which would be, to a maximum extent, independent of arbitrary state actions, while following the standard rules of interaction in the market;

- The state sector should be governed administratively, and its structures (institutions and enterprises) should work in a regime of hierarchical coordination according to planned tasks. Every activity by the heads of state sector enterprises, which is oriented to obtaining profit from operations not connected to fulfillment of planned tasks, must be excluded;

- Commercial relations between sectors should be carried out by means of open auctions and tenders.

The auction-tender barrier between the state and private sectors, and administrative control of state enterprises, would serve as a protection for the budget. All transactions in which

the state is the seller, must be carried out through open auction. All transactions where the state is the buyer, through tenders. That would make it possible to narrow official possibilities for profiting from unscrupulous transactions with the private sector. Moreover, the auction form would increase revenues to the treasury, because the products and other property of the state sector, including the rights of leasing, licenses, quotas, etc., would be sold at the maximum price. The tender would decrease treasury expenses, because it would identify that supplier or contractor who provides real quality at the least price.

The withdrawal from financial subsidies to private enterprises, should serve as a budgetary protection from socially useless spending, too. Under our conditions, the vast majority of these businesses are in the hands of inefficient owners, and all budgetary (and non-budgetary) money directed to their support will unavoidably fall into the pragmatists' hands and, as a result, be exported abroad.

The complexity of the problem consists in accomplishing this distancing, without unacceptable losses to the implementation of structural investment priorities.

As long as a community of efficient entrepreneurs and a climate for favorable investments are created, the ordering of interactions between sectors may be corrected. At the present time, however, the state must participate in restructuring the private sector, first of all, by indirect methods:

- investing state investment resources into infrastructure as a key sector of future modernization, and financing it by means of selling the right to use the infrastructure networks, to the private sector;
- forming a favorable investment climate, by simplifying the conditions for directing resources into priority segments of the economy.

That is, the interaction of stabilization methods with the restructuring of the economy. Not denying the monetarist technology, but rightly defining its place as an addition to the instrumentarium of structural policy, is the key to the ultimate success of the reforms in Russia.

Only after having closed the channels for leakage of budget resources, by creating the auction-tender barrier and de-commercializing the state sector, can one provide the financial resources to consumers which are necessary for the purchase of 90-95% of the products of all active state sector production. Having the state control prices and wages will not lead to inflation, but will create the payable demand, adequate to the state sector's economic potential.

We are speaking about a very considerable sum (about 500-700 trillions of rubles). To expect to receive such money by means of borrowing is quite senseless, and unnecessary. External borrowing to get additional currency for the country does not stimulate our own production, but rather imports. Internal borrowing doesn't broaden, but only redistributes total demand.

The only appropriate source for obtaining additional

money is to issue it. If this is designed within the limits of real production possibilities and objective requirements, then it is not the issuance of worthless paper. That is a reasonable policy for overcoming the crisis.

Bringing health to the financial system and rationalization of the budget

Along with the decline in economic efficiency, the payable demand for credit resources is shriveling sharply. Businesses are in need of grants (or, what is almost the same—preferential credits), but not of credits with positive real interest rates. That is why it is necessary to find the solution to a twofold problem.

First, the Central Bank should index the remaining funds in the correspondent accounts of commercial banks in the Central Bank. That will enable it to avoid "credit dumping" and provide a positive real interest rate for deposits, and will create stimuli for the population and enterprises to save.

Second, the profitability of state securities must not exceed the discount rate, otherwise the budget would be pumping out free money, making it senseless to invest in production. The profitability of state bonds in Russia is obviously too high. The mechanism for refinancing the state debt itself, by means of these short-term bonds, is on the decline. It would be appropriate to issue long-term, indexed bonds, paying an annual interest rate of 5% (the interest rate, of course, should be indexed). Such bonds must be counted in the mandatory reserves of banks, insurance companies, etc., on the deposit side (because they don't entail any monetary issuance, but only the transfer of money for temporary use by a borrower). That is easy to substantiate, since investment monies which the banks have attracted into state bonds should be considered the most reliable placement, not requiring any reserves.

The most difficult problems arise with the currency exchange rate and the balance of payments. Flight capital leads to a decrease in the national currency exchange rate, with very catastrophic consequences: intensifying cost-push inflation and "inflation by competitive imports of finished goods."

On the other hand, the recession in production by the manufacturing industry, and the decrease in the population's income, investment demand, and budget expenses, cause a temporary reduction in demand for important equipment and semi-finished products, while the potential for exporting raw materials and energy expands. In 1994-1995, that led to a too rapid rise in the rate of the ruble, which boomeranged against domestic production of finished goods. The production and export not only of textiles and footwear industry products is becoming inefficient, and of domestic equipment, electronics, and instrumentation, but also of the products of a number of the raw materials industries that have high transportation costs. In other words, the decline gives birth to an active increase of the trade imbalance, the increase of the real exchange rate, and, again, intensification of the slump. The reasonable policy in this case is obvious.

It is not possible to take foreign credits to “improve” the balance of payments, with a positive trade balance equal to 40% of exports. Conversely, it is appropriate to increase capital exports by the state, by extending credits to the countries which consume Russian machinery and military-technical products. The problems of financing the budget deficit should be solved by internal borrowing, but mainly by increasing the tax revenues from exporters and importers. That is quite possible to do, having once abrogated the privileges of specific importers and “loopholes” in the payment of customs fees. But the main source of increasing the budget revenues is the increase of the tax base and a decrease in arrears, with increasing ruble profits from exports.

It is necessary to introduce strict currency controls for export and import, with a corresponding withdrawal of customs fees. At present, exporters may delay paying duties for up to 180 days, if they have not received payment for products supplied. It is clear that with stricter currency control, the stimulus to export will be decreased, which will enable us to avoid an increase in the balance of trade surplus, and “denudation” of the domestic markets. But the budget revenues will grow 1.5 to 2 times, due to our ability to reject IMF credits (which certainly doesn’t mean a refusal to cooperate with it).

As a whole, the currency policy should provide the national industry with competitiveness and a positive trade balance, equal to the interest payments on the external debt. Of course, attaining that objective is impossible without increasing the tax burden, which in turn means abrogation of the most inflationary taxes (on value added, and the tax on the wage fund). Excise duties on alcohol should be established at an absolute amount per unit of alcohol.

Measures should be taken to bring health to the banking sphere, on the basis of an accurate analysis. Evidently a rather large number of small banks will close, after taking care to minimize the losses of their clients. Special clean-up programs should be adopted for many big banks, as far as one can see.

Should it become necessary, there must be no place for ideological doubts about such measures as bank nationalization, for the purpose of preventing the collapse of the whole monetary and credit system. This can be relatively painless to accomplish under our conditions, where most of the large banks were formed on the basis of state capital.

Most likely, as in the Central and East European countries, we will implement a special program to bring about healthy bank balance sheets, freeing them from “bad debts.” Finally, to prevent a loss of public confidence in the commercial banks, and other institutions which transform savings into investment, the question of state guarantees for private deposits deserves the most serious attention.

The creation of conditions requiring potential clients to present broad and authentic information about their financial and economic status (i.e., confirmed by an accurate audit), will create a rational basis for the banks’ credit activities.



This building was part of the Russian Academy of Sciences, founded in 1725 according to the plan Leibniz gave to Tsar Peter the Great.

Organizations of commercial banks and businessmen might become the initiators for a company (similar to the American “Dun and Bradstreet”) which would gather and publish average financial-economic indices for the branches of production, which would enable the banks to compare the corresponding indices of their potential clients, and to estimate their possibilities more precisely.

Measures directed to creating favorable macroeconomic and institutional conditions for efficient banking activity are necessary.

First of all, it is necessary to radically change ideas about the state as an irresponsible financial partner. With that aim, it is perhaps necessary to take an unprecedented step, which would, by legislation, oblige the government to fulfill its financial obligations, including at the expense of forced borrowing from the Central Bank (in the event of a lack of financial assets).

In those cases, when commercial banks are simply conveyors for government credits, a government guarantee of their return must be given.

Perhaps the most difficult problem is non-payments and insolvency. The non-fulfillment of obligations and delay in the payment of creditor debts (to banks, suppliers, employees, the budget, clients, depositors, bond-holders)—the reflection in a “dual space” of the inefficiency of production and of currency circulation, the discontent of the financial management, economic imbalance, plundering of property (of depositors, stockholders, suppliers, clients) by managers (directors, partners, financial institutions)—are all real. It is impossible to liquidate the insolvency crisis without strict financial control.

While the banks' balance sheets are somehow monitored by the Central Bank, other enterprises may have liabilities a thousand or a billion times exceeding their equity. In general, the extension of credit to unprofitable enterprises must be forbidden, because they don't have sources either for the payment of interest, or the return of principal. That is why credits granted by the Central Bank at low interest rates, should be disbursed exclusively through reliable banks and to reliable borrowers. By "reliable," we mean that the liabilities of banks and enterprises should be less than their liquid assets, taking into account the terms of repayment. That means for the banks, that they may be given credits only on terms which are less than the terms which attract depositors' money. And productive enterprises must limit their liability to approximately half the amount of their liquid assets. Naturally, that is impossible to do, if products are supplied without banking guarantees for customers, or credits extended to those who, by charging dumping prices or diverting monies abroad, are plundering enterprise assets, and so on. But it is impossible in principle to overcome the systemic crisis, without putting everything in order.

It is clear that the transition to settling of accounts by letters of credit, forbidding of commercial credit barter, reducing non-payments, indexation of monies remaining in the correspondence accounts of commercial banks in the Central Bank, stopping of financial machinations, counterfeiters, and the issuance of monetary surrogates, by the Central Bank's removing foreign currency from domestic circulation and depositing it in accounts abroad, from which the interest rate payments will be for servicing the foreign debt—all will require the colossal issuance of money. But, since the reason for this will be the growing demand for money, one should not fear a jump in inflation. On the contrary, decreasing the tax pressures and increasing the scale of production will make it possible to stop the inflation of expenses and, by rationing the issuance of money, to prevent demand inflation. Essentially, the state can repossess a part of income from money issuance, which it had refused during recent years for the sake of ultra-liberal imperatives.

Today a radical revision of the basic principles of the budget policy is required. Rationalization of the budget system would make possible an essential increase in economic activity, stimulation of demand, creation of the conditions for investment activity growth, achievement of a higher level for the least well-off layers of the population—and all that, without excessive loss in the total volume of budget revenues. It is possible to implement a new budget policy only through the creation of powerful alternative sources of revenue. Under Russian conditions, revenues from state property can become such a source and must come from its sale, as well as from its exploitation. The strengthening of financial discipline should produce just as great an effect, and so should the cessation of individual tax privileges. It is also necessary, as well, to bring some order to the spending of budget funds, to the issuance

of credit, to currency policy, and to the strengthening of tax, payments, and banking discipline. The indicated measures should be accompanied by a rationalization of the tax system. But hardening of tax discipline under conditions of excessive tax pressure and of chaos in tax collection, is as impossible as it is senseless. The main accent should be on economic measures providing for economic recovery on a new institutional-technological basis.

4. Strategic tasks: The national property system

Despite the "selfless" struggle of Russian privatizers against state property, the latter remains of considerable size. In first approximation, it may be estimated that the state's share of the total value of the country's production capacities is not much below 50%, even today.

This points to the essence of the problem, insofar as to get rid of this property as soon as possible, privatization must be continued, but now on a virtually free-of-charge basis. Actually, the efficiency of state property is very low. Both the pre-perestroika experience and that of the reform period itself, confirms that there are huge expenses associated with its utilization. There is a large degree of inertia embedded in state property, and it lacks the safety margin, necessary for rapid adaptation to market conditions.

But, at the same time, the same experience confirms that changing the form of property does not solve the main problem—to ensure that economic objects function with high efficiency, in accord with the rules of the market. The further continuation of privatization will be accompanied by interminable disputes about the criteria, according to which some enterprises should be among those privatized, and others not. Given an underdeveloped capital market, it is inevitable that there will be interminable discussions about how correctly a given property has been assessed, and, hence, suspicions (well-founded, in many cases) about corruption on the part of those who made the appraisal. There is certain to be a pre-ordained struggle among different departments, for many years, also involving commercial entities, for a place at the "privatization trough."

A radically different approach is proposed, based on a national system of property.

The first step toward its implementation is to establish the right of the state as the owner of that 50%, the essential portion of assets, which has not yet been dissipated during the perturbations of 1992-95. This is, first of all, land, natural resource deposits, large industrial enterprises of strategic importance for the whole economy, as well as national infrastructure (productive, and social).

These objects are allowed to be maintained either in the form of public enterprises, or with the assignment of user

rights—for management, or other rights, granted to commercial or non-commercial enterprises, created by private persons, state agencies, or jointly. Thus, the rights to state property—excluding the owner's title—become objects of economic circulation, regulated by the norms of civil law that hold for all subjects (including public authorities).

Let us, then, sum up our position on all the basic questions of reforming the Russian economy, in the realm of property relations.

The initial principle is freedom of entrepreneurial activity, i.e., the right of private persons, and the commercial and non-commercial organizations they organize (for a certain period, non-state ones only), to create enterprises—to the extent to which that freedom does not limit other rights of the citizens, and does not prevent the state from fulfilling its functions and obligations, envisaged by the Constitution and by laws in effect.

The activity of enterprises should be endowed with the institution of property, i.e., with legislative acts and protection of the complete set of rights, regarding the appropriation of property and incomes from its use, and excluding any property claims by anybody (including the state) not confirmed by court decision.

Any discrimination against the rights of physical persons, in relation to juridical persons, in the sphere of entrepreneurial activity is intolerable; on the contrary, entrepreneurial activity by juridical persons, above all of enterprises with limited responsibility, should be given a stricter framework of legislative and administrative control.

The sphere of property rights, protected by civil legislation, should be steadily broadened to embrace more and more new kinds of assets of enterprises and/or juridical persons, such as “know-how,” the ecological safety of housing, and so on.

The exclusion of private enterprises from access to some kinds and spheres of activities, and the exclusion of certain kinds of property, or related property rights, from free civil turnover (i.e., the state monopolies), must be established only by law and within limits established by legislation. The government's competence to abolish such limitations temporarily (but, not to expand the list of them) is admissible, but should also be strictly defined by law.

Land resources should be excluded from the sphere of free civil turnover (being now in the possession of the Russian Federation, its subjects, and municipal authorities). At the same time, all necessary conditions should be provided so that the rights to utilize land, for commercial and consumer purposes, be maximally accessible and susceptible of free circulation among private and juridical persons, with due status for inherited rights, and so on. The same regime should be established for natural minerals and other deposits beneath the Earth's surface (envisaging priority and privileged user rights for their discoverers), water resources, and the country's marine and air space.

Property that is within the framework list defined by legislation (including the property rights embodied by state holdings of stock shares, user rights belonging to the state, rights in foreign assets, and in objects of industrial ownership, and others), out of everything that remains state property at this moment, are not subjected to further privatization, and access to its exploitation should be carried out by forms of leasing or management in trust, or other rights granted to enterprises, of all forms of ownership, and to private persons. The list of property, and the conditions and procedures for its transfer for purposes of utilization, trust, or other exploitation regime, should be established by a special Law on National Property, which should replace the legislative acts on privatization.

As Western experience shows, a leasing system based on the assignment of leases turned out to be very profitable, both for owner, and exploiter. It should be kept in mind that there is no problem of the efficient distribution of risk among the partners in an investment process, that cannot be solved by an appropriate choice of leasing conditions, without any loss of ownership title—barring the problems that so excite speculators in land and other real estate.

A national property system will make it possible to revive the collective leasing movement, which had accelerated at one point, but is now sickly.

A system of national property opens up wide opportunities for a rapid increase in the efficiency of state property utilization. Certainly, it is impossible to leave out of account, in this, those powerful counteracting forces, which have an interest in preserving the existing order of uncontrolled appropriation of profits from the exploitation and direct plundering of state property.

But, if one proceeds from the national interest, then that resistance, whatever ideological clichés it might be covered with, should be broken down—the sooner, the better.

A new system of taxation

The tax system now in effect is a classic example of how people can be forced not to work and not to invest their capital in the development of production, but rather to export it abroad. Having put the working population in an unprofitable position, and making commodities very expensive, that system limits the economic activity in the production of material and spiritual values. In this way, there will never be sufficient resources to restructure production according to national economic interests.

In contrast to many other countries, Russia has a fundamental revenue source, which today remains unused. That is, rent from natural resources. Russia could cover its priority expenses for defense, to support defense industry conversion, for science, education, culture, and maintenance of the state apparatus.

A transition of state revenue collection to a rent system promises advantages not only of an economic nature, but also social. It will make it possible to organize a system of financial

transfers between profitable and unprofitable, but promising, sectors of the economy, between poor and rich regions, to provide powerful social supports for the population, and to create a system of supplementary social payments for wages and pensions.

From the standpoint of the principle of strategic orientation, it is necessary already now to think about another, no less important aspect of rent payments into the budget. This is a way of ecologization of the taxation system.

In today's world (especially, tomorrow's), not only diamonds or fertile land will be the main sort of natural wealth. The assimilation capacity of the natural environment—its capability of withstanding anthropogenic impacts, and of self-restoration after unavoidable interference with natural processes—is now becoming not merely wealth, but a main condition for the existence of the human race.

Today, Russia has advanced further than other countries in the practical application of a new economic instrument for environmental protection—payments for pollution of the environment. During the past three years, experience has been accumulated in levying such payments in the majority of regions of the Russian Federation. But the existing payments, mainly in the form of penalties, in no way correspond to the rent income, which the still huge assimilation capacity of our national ecosystems can provide. Russia still has a chance to restore and to preserve this national wealth, to become an example for other countries in the transition from words to deeds, in the economic protection of nature. For this, the introduction of an ecological tax on the exploitation of the assimilation capacity of the environment is required. Like other payments for natural resources, that tax doesn't require a general increase of the tax burden on the national economy, but will lead to its redistribution in the interest of ecologically safe and nature-preserving types of activity.

Russia could become a pioneer in the creation of a system of mandatory ecological insurance, by which the economic responsibility for accidental contamination of the environment would be shared by the polluting enterprises and the insurance companies. In that case, it would become possible to attract the financial resources, as well as the supervision and inspection capabilities, of such companies, to solve urgent ecological problems.

One should keep in mind that a "shock" transition to the system under consideration, is not admissible. That might lead only to a further aggravation of social tension, and to discreditation of the aforementioned concept of a natural-resources tax.

Taxpayers must have time to prepare for a global "re-evaluation of values," dictated by new rules of taxation. There must be a strategy in stages, for the gradual shift of the tax burden to nature consumption. Such a strategy should be made as a programmatic document, adopted by the higher authorities in Russia. The prospective taxation rate levels should be indicated in that document, and measures for the

gradual adaptation of taxpayers to the new conditions should be envisaged—development of tax credits, granting of privileges to certain categories of taxpayers, a displacement of the center of gravity of taxation from buildings and structures, to the land component of real estate, reduction of direct and indirect subsidization of nature-consuming types of activities and those harmful to the environment. It is important to reform comprehensively the legislative "branches" for taxation and natural resources, and monitoring systems, and to interconnect them with advanced scientific support.

It would be appropriate to study giving the right to subjects of the Russian Federation [the provinces, territories, major cities, and other jurisdictions, making up the Russian Federation—ed.], as well as local (district, town) authorities, to increase the amount of such payments to the budget within those territories, provided that the territory has fulfilled all obligations, regarding the amount and terms of taxes and other payments to higher-standing budgets and extra-budgetary funds.

During the first stage of transition to a new taxation system, more attention should be paid to the necessity of changing the present taxation structure, up to and including abolition of some taxes. Already now, taxation of producers should be structured in such a way as not to provoke an artificial growth of costs, with a consequent increase of prices on products.

Some research shows that a value added tax and a wage depreciation tax (VAT and WDT) are the most burdensome for production, and provoke an automatic increase of prices, which makes it more difficult for our producers to go into the world market. The WDT has been abolished. Now it is the turn of the VAT. The tax on profits, and its various modifications, should become the main method of taxation, in the first stage of tax reform.

Taxes of this sort are not charged against current costs of production, and are levied only on profitable enterprises, because of which they have a negligible impact on inflation. The optimal level for the tax on profit, according to calculations, is in the range of 50 to 60% (provided there is no VAT or WDT).

Further improvements in the taxation system are connected with the transition from a tax on profit, calculated in percentages, to fixed payments. Such payments don't undermine the interest in increasing profits, and they enable a simultaneous distribution of the tax burden, in correlation with the real possibilities of the producers. This is especially important in the case of nature-consuming enterprises, which have very specific conditions of work.

Accelerated housing construction

The most important and highest-priority task, of the whole long list of long-term development tasks, is housing construction.

The existence of considerable savings, as well as the re-

sults of sociological polls of the population, indicate that housing is the object of most persistent demand. It may be expected that not only in the immediate future, but in the longer term, there will be a stable, effective demand for housing in Russia. Moreover, housing enjoys higher consumer preference than other goods.

Investment in housing construction, provided there are reliable, persuasive guarantees, will be preferable to investment in currency, not only for those who need housing, but for persons interested in generating income, and those who want to obtain real estate for the purpose of leasing it. Such guarantees would create a favorable climate for attracting back the capital that has been exported from Russia, as well as attracting considerable foreign investments.

Housing construction, as an anti-crisis locomotive, will pull a train of related manufactures: construction materials, machinery, lumber, furniture, sanitation equipment, electrical appliances, household equipment, and other durable goods. All of that opens up wide prospects for industry. The existence of virtually inexhaustible reserves of mineral resources, for the production of construction materials, vast expanses of forest, and a half-idle production base, make it possible rapidly to broaden or to organize anew the production of many of the above-listed types of products. A considerable part of this production could be done at converted enterprises of the military-industrial complex. This would provide for its most efficient restructuring, under market conditions.

Accelerated housing construction will make it possible to optimize the number of households that have separate dwellings, which implies an intensive development of infrastructure, above all of the road network, which is inadequate in Russia.

The development of the housing complex, related products, and infrastructure, will stimulate additional demand for labor, which will help to solve the unemployment problem. This is a new and painful problem for Russia, because increasing unemployment can seriously destabilize the social-political situation, since the mentality of the population was shaped under conditions of full employment.

There is no alternative to housing construction, for solving the unemployment problem—all the more so, because housing is a unique product, closely related to a territory, and, therefore, somewhat removed from competition. Housing cannot be replaced by imports, which is what usually leads to the loss of jobs; with housing construction, the number of jobs is increased.

Implementation of a housing construction program will make an essential contribution to the development of federalism, and will help to increase the role of regional management and self-management. To give accelerated housing construction the role of a locomotive, objectively means an expansion of the economic possibilities of regional administrations and municipalities, which strengthens democracy and activates the power of the people.

A strategic maneuver in industry

The following three-stage scenario may be proposed as a strategy, corresponding to national economic interests during the transformation of Russian industry. It does not boil down to a complete redirection of resource flows at the point of transition from each stage to the next, but rather envisages a certain shift of priorities over time.

The task of the first stage could be to raise the investment possibilities in the country by:

- a national export policy, oriented toward expansion of large-scale primary processing of fuel and energy, and raw materials, resources;
- “economic” conversion of the military-industrial complex [MIC]. The latter, in contrast to “physical” conversion, means, not a literal switching of the MIC to satisfy the demands of the population, but rather the import of those goods, balanced by arms exports;
- the use of appropriate mechanisms to redirect the resources of low-efficiency and ineffective industries into industries where resources are used more efficiently.

Another important task of the first stage is to support science to the maximum possible extent, to support the most promising research and development, and prevent or reduce the “brain drain.” This requires direct budget support, and a flexible system of stimuli for the commercial sector.

It follows from this statement of the problems of the first stage, that it is impossible for it to be governed solely by forward-looking production criteria (export potential, tendency to increase efficiency indices), in the distribution of resources between traditional and new sectors. Those traditional industries should be supported, which 1) block the import of consumer goods, 2) are characterized by high efficiency, in world prices, 3) have a positive effect on other sectors, and, in particular, provide resources for the formation of new sectors. Regarding such industries, it is necessary to take into account the wave-like technological evolution of the world economy, skillful integration into which can provide considerable advantages for the national economy. Such skill takes the form, in particular, of exploiting some hitches in the development of leading countries, surges in the demand for products of basic industries, and the opening up of niches for the production of the latest components.

The main reason for the collapse of industry and agriculture was the unprofitability of enterprises in world prices, as they were made uncompetitive by the liberalization of foreign trade. Unprofitability, however, is not the last word on this or that industry. If it produces added value, then that is good, too. Because the increment of added value contributes to a final product, and thereby to the country’s finances.

The task of the second stage is the transition of industries to resource-saving technologies, on the basis of a reconstruction of the national machine-building industry. In order to provide not only specific achievements in resource-saving, but to change the situation as a whole, this line of conversion

is just as important as is the participation of the MIC, for modernization of the national reproduction base of machine-building.

The task of the third stage is to use the investment opportunities that have been created, to connect pioneering technological advances, with broad reproduction of such innovations. Thus, the task is for Russia to enter the group of technologically leading nations, and consolidate that hold.

Special attention should be paid to a strategic maneuver, to orient MIC production capacities toward servicing export-oriented branches of Russian industry.

This is precisely how the dangerous gap between those branches and the national manufacturing industries can be overcome.

The Russian economy has inherited huge raw-materials and military-industrial complexes—(abbreviated as RMC and MIC). The lion's share of the industrial, natural-resource, and ecological potential of the country, and enormous efforts of the entire people, were spent to expand them. When military-strategic competition with the West, and the increase and improvement of armaments, was a main concern of the political leadership, the MIC was the leading party in the interaction of those two monsters. It would be more precise to speak about subordination of one to the other, rather than about interaction. That was the main reason for the non-uniformity of resource and technology capacities, in the sectors of the economy as a whole. In other words, the large part of the products of the RMC, and, at the same time, the most important ones from the standpoint of modern technologies, were directly or indirectly spent on MIC activities, i.e., were included in the macroeconomic contour of arms production.

One could add that the surplus product, created in the extractive industries (which was very high, because of natural riches and low wages), served as the economic basis for the entire system of macroeconomic contours, which made it possible to maintain a high intensity in military-strategic programs over many years.

What, in fact, has happened to the structure of economic reproduction during the years of the reform? Perhaps the most noticeable fact, is that the MIC is now essentially on an equal footing with other sectors, saddled with burdens that came like a bolt from the blue, with the destruction of the former planning system of management and control. The most important new economic reality, was the destruction of the reproduction connection between the RMC and the MIC. In and of itself, that is natural, and would be no cause for negative emotions, were it not for one essential circumstance. The large part of national economic profit, formed in the RMC, was diverted not only from MIC channels, but from all channels connected to the high-technology sector, the science that traditionally serviced that sector, and from many related branches: the metallurgy, chemicals, petrochemicals, electrical engineering, and electronics industries. As a result, the multi-sector production structure of industry is gradually becoming mono-sectoral.

The main source of Russian income, two-thirds of which is formed in the RMC, was cut off from industrial production, and the national economic profit from exploitation of the most important natural resources, was increasingly expropriated by criminal and quasi-criminal structures.

This resulted from a one-sided approach to the processes of market transformations, and a naive belief in the omnipotence of purely financial methods of economic management, ignoring another, no less important aspect of the market—the system of methods of state regulation, including planning.

Suffice it to look at the experience of post-war Japan, where planning procedures were widely used, as well as mechanisms for the identification and implementation of priority directions of industrial policy. An important feature of the Japanese experience, was that state support of priority sectors applied basically to those industries, the development of which produced a larger cumulative effect, along a whole technological chain of related industries. The essence of this approach was the mutual coordination of industries, whereby the development of one advances the intensive development of others.

The concrete application of this interconnection to Russia might look like a chain of mutually complementary RMC industries, the machine-building industry, and metallurgy. The machine-building industry and metallurgy act as the main consumers of fuel and energy. At the same time, the RMC enterprises are the main consumers of machine-building and metallurgy products.

The interconnection of the machine-building industry with the RMC will make it possible not only to halt the decline of production, utilize defense industry capacities, and avoid unemployment, but to save currency resources by being able to refuse a considerable part of imported supplies of machines and equipment.

Switching to metallurgy means not only a large import-substitution effect, but also possibilities that open up for that branch of industry to use energy-saving technologies, thanks to a supply of new equipment from defense sectors. That, in turn, will make it possible to increase the volume of fuel and energy from the RMC for export.

The combination of the military-industrial and extractive complexes should become the framework for new inter-sectoral interaction, reoriented in accord with the changed macroeconomic conditions. Of course, if we speak seriously about demilitarization, then the MIC can no longer have pretensions to its former leading role in that duo. That does not mean that it loses any essential significance. There is no alternative to the connection of the two aforementioned powerful complexes, on a new macroeconomic basis, at least for the next decade or two.

The fuel and energy sector should become the leading party in the duo. To make it simpler, let's express it this way: That complex should assume the role of main customer, for the products and services of the MIC.

The economic reference point for such interaction could



A crumbling residential facade in Moscow, in June 1995. The CEMI specialists propose a national housing construction program, as a centerpiece of the economic recovery.

be the technical re-equipping of the raw materials branches: implementation of new technologies for extraction and primary processing of raw materials, providing a higher level of economic exploitation of already developed deposits, and the required scales of exploration and development of prospected reserves, where large-scale industrial exploitation is not rational, or even possible, without extraordinary technical solutions and cost-reduction.

The financial basis for the new interaction between the fuel and energy sector and the MIC, could be the profits from raw materials exports, a considerable part of which would be directed into payment for orders from defense enterprises, and direct investment in the creation or development of corresponding capacities in the machine-building industry and metallurgy. On the other hand, MIC participation in the profits of the extractive enterprises could be organized through mutual control of those enterprises' property.

It should be recalled that a large portion of the enterprises of the fuel and energy sector and the MIC remain federal property. It is just that they are not controlled at the present time, and not managed by their owner (the state), because of the general collapse of the system of economic management. Uncontrollability in the economy has gone so far, that ideas of a return to administrative control are becoming more and more popular.

It may be possible for the federal authorities to keep the "commanding heights" in the basic sectors of the economy (either keeping their enterprises completely as federal property, or the state's retention of controlling blocks of shares in

privatized enterprises), by means of creating a network of trust companies, with which the state concludes agreements on the management of federal property. The use of financial-industrial groups (FIGs) is most suitable as the basis for such companies. One should keep in mind that the enterprises included in a FIG are situated on the territory of different regions. Interaction and negotiations among regional administrations and the leadership of corporations (provided they are independent of each other, and of the federal authorities) will lead to the rationalization of the disposition of industry, which will create conditions for general economic growth. It is important to note that this transfers economic contracts from the vertical plane (regions-center; enterprises-ministries), preferably to a horizontal one: federal authorities can assume the role of arbiter in difficult cases, and, basically, economic problems will be decided in negotiations between the territorial representatives and those of the FIG. Thus, an element of competition can be created (between FIGs, as well as between regions of the country), which will define many structural shifts in the economy.

The creation of several inter-sectoral FIGs, which unite in their composition the enterprises of the fuel and energy complex, the machine-building industry, and metallurgy, will make it possible to solve several of the most important problems: increase of manageability, stimulation of investment, acceleration of conversion, increase of export potential, etc. It will be of great importance for the development of such cooperation, for the banks to participate broadly in the share capital of industry; that is, when a mediation link in manage-

ment, so lacking today, will appear in industry. Such an approach to the matter should be considered a very important line of a new industrial policy.

Programming scientific and technological development

The reform policy has driven Russia to a remote place in civilization. The holy of holies has been destroyed: science and education. Quite recently, we were approaching the world level of scientific achievement, and had surpassed it in some places. Today, where there used to be active scientific research, and a complex of fundamental and applied problems had been solved, chaos and decline reign. The scientific schools are being destroyed, without which Russia has no future.

But it is still possible to stop that catastrophic course of events.

Oases of high technology still exist in the country. These are not only the centers in or around Moscow, like Zhukovsky or Podlipki, but also a whole number of outlying centers (Arzamas-16, Chelyabinsk-70, Omsk, and many others). These are unique collectives, of the highest professional level, collectives which are capable of creating unique facilities and unique technologies, including of non-military significance. The fact that they are unable to mass-produce them, is another matter. So far, they work according to Levsha's principle: one or several copies of something unique. But the important thing is that those collectives are still alive (to be more precise—barely alive), and have not lost their craftsmanship. That is surprising, but it is a fact. It is demonstrated by exhibitions that have been staged.

But now, another step is necessary—to unify those relics of the past, with the production base of the MIC, with research centers like the Physical-Technical Institute, the Moscow Higher Technical School (MVTU), Moscow University, and the creation of corresponding technological parks, with broad diversification of lines of research and applied development.

The preservation and build-up of the high-technology centers require the solution of a whole complex of problems of economic organization. Transformations in that sphere, which are of vital importance for the country, are connected with a large time horizon, and huge volumes of financing. There can be no expectation of some quick return. But, one should begin now, because otherwise it will never be able to be done. The market, with the financial self-regulation mechanisms intrinsic to it, is a poor assistant for that. Those mechanisms work under conditions of a stable, balanced economy, with a fully elaborated production structure, low inflation, adequate utilization of facilities, and employment. We are situated, at present, in a different phase of the reproduction cycle—in the phase of deepest economic crisis. It is opportune here, to compare it with global crises in the economy of a society during war-time. In order to set things right, and bring the country out of such a deep crisis, a different mechanism

is needed, which has already many times demonstrated its undisputed advantages, by comparison with the market mechanism, in periods of catastrophe. This is the mobilization mechanism, based on planning methods and the corresponding institutional structures.

The situation in the economy is now so explosive, that we cannot permit ourselves any dogmatic narrow-mindedness about ostensibly depraved methods in general, and the inadmissibility of their use during the transition to the market, in particular. The market per se is a chimera. It is important for us to find a correct solution to the problem of bringing the country out onto the main route of social wealth and scientific and technological development. And that means not to deny either of the two known management mechanisms in the world—market, and mobilization—but to use them skillfully in conjunction, and in doses. Taking one or the other in excess, is equally bad for the economy.

What do we propose?

First, as we have already tried to substantiate in the preceding section, the distinct division of the economy into two non-intersecting management contours—state, and commercial or market.

Within the state sector, interaction among the economic subjects is accomplished not on a commercial basis, but through a system of state orders. The interaction of these subjects with the market sector is accomplished according to strict rules—on the basis of open auctions and tenders.

Second, the sphere of fundamental science, including the Russian Academy of Sciences and high-technology scientific-production centers, are “embedded” into the first, state contour; i.e., they function in conditions that maximally approach those of a planned economy. But not that deformed parody of planned regulation, when everything was prescribed, down to the last nail, but rather one that is fully capable of effective interaction with the market.

The most important function of management in the state sector is the establishment of priorities for the development of science and technology. Today, there are no institutions in our country that would fulfill that function. At the same time, world experience reveals broad representation of such institutions in the upper echelons of management in the leading capitalist countries, such as the U.S.A., Japan, Great Britain, France, etc.

Third, to form a Presidential Council on science and technology, consisting of prominent scientists and specialists. Scientists from those departments of the Russian Academy of Sciences, who are bringing up the rear in world scientific and technological development, should not be burdened with participation on such a Council. There is no point in inviting scientists or specialists who have only narrow interests. It is more necessary to make a good selection of those who have taken an active role in politics or business. Representatives of the humanities would scarcely have a useful contribution to make here, either.

The main task of the Council would be to estimate the

long-range priorities, for the country to have a stable niche in world scientific and technological development. This would be a "brain headquarters" for the Russian President. The Council should carry out, chiefly, a conductor's functions, with respect to a widely ramified, bureaucratically well-adjusted system of extra-departmental expertise. For this purpose, a Center of State Expertise for basic directions of scientific and technological development would be created.

Fourth, to create a Targetting-Programming Committee, to which the development and elaboration of Presidential programs for implementing the priority directions of scientific and technological development should be put. The latter come under a framework of planned management of scientific and technological development.

Of course, the implementation of each Presidential program presupposes the balancing of necessary resources with present production resources. This balancing, which depends on how the program is implemented, is in the nature of a guideline, and has nothing in common with the previously developed formal indices of national economic balances.

Fifth, each Presidential program should be subjected to separate consideration, evaluation, and approval by a higher organ of legislative power. Programs should be developed, adopted, and corrected, as necessary, with clarification of how the relevant problems are to be solved. The procedure of preparation, approval, and correction of the programs should be synchronized with the procedure of development and consideration of the state budget.

The state order takes on a due content, within the technology of program-oriented planning. Its nomenclature should be defined not only by the key role of the relevant manufactures, but, first of all, by their ability to initiate large-scale changes and to provide an avalanche-like return, and, second, by the absence of demand for some production, because of underdevelopment of the corresponding markets. State orders should play the role of a kind of bridge, connecting social consumption to new technological possibilities, or of a detonator that sets off explosive technological changes.

Because of the uncertainty of the priority directions of scientific and technological development, the programs for their implementation cannot be specified down to an exhaustive list of measures. For that reason, the programming management agency will have to structure a program continuously, and to refine it as its tasks are realized. Because of that circumstance, the state order cannot become an exhaustive instrument, or even a dominant instrument in these tasks. Methods for gradually decreasing uncertainty will play a big role—risk credits, targeted grants, and partial redemption of risky investments, as well as methods of indirect stimulation of the activity of economic subjects in priority directions: tax privileges (including exemption of R&D expenditures from taxation, as well as capital investments in new technologies, and accelerated amortization), preferential credits, targeted subsidies to consumers of new, expensive products, etc.

Sixth, to create a network of scientific foundations in the Russian Academy of Sciences, which receive funds for the research part of Presidential programs and distribute them for particular projects and grants.

Seventh, to introduce a tax-free regime for all Russian Academy of Sciences organizations, for educational research and experimental production complexes, as well as for MIC enterprises that participate in the implementation of Presidential programs; the entire amortization allowance should remain at the disposal of those organizations, and be used in a targeted way for the restoration and development of the scientific and production base.

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British destabilize Turkey to sabotage land-bridge

by Konstantin George

The year 1997 will be the most decisive year in modern Turkish history since the 1923 founding of the Turkish Republic by Mustafa Kemal Ataturk. The reason lies in the coming to power last June of a coalition led by the Refah (Welfare) Party, with Refah leader Necmettin Erbakan as prime minister. Erbakan, an "Islamist" (a semi-misleading label which merits closer scrutiny), staged a revolution in Turkish foreign policy on Aug. 10-11, 1996, in a visit to Iran, which established a Turkish-Iranian axis of economic development, as part of a broad Eurasian development policy drive. That visit culminated in a mammoth deal, whereby Iran will become Turkey's main supplier of natural gas, and a potential supplier of oil. Linked to last year's resumption of Iraqi oil exports to Turkey, Erbakan has created the energy basis for Turkey to become economically independent of London-centered oligarchical forces. Concerning the term "Islamist," Erbakan's emphasis on working closely with Iran, constitutes the continuation of a centerpiece of Turkish foreign policy in the 1920s and 1930s under Ataturk, the founder of the "secular" Turkish state.

Since August, and indeed earlier, British and allied interests have mobilized their assets within the Turkish political class to prevent expansion of the Turkey-Iran-centered Eurasian development strategy launched under Erbakan. The British-orchestrated destabilizations have been occurring along two parallel thematic tracks: 1) the creation of a strategic deflection, to shift Turkey away from its development course, by engaging it in a military adventure, using the vehicle of a new Cyprus crisis, and 2) orchestrating the parliamentary toppling of Erbakan, to replace him with a coalition of all main parties, excluding Refah.

Erbakan's vulnerability lies in the fact that his government is a coalition of parties. He was forced to take on as Refah's junior partner, the Dev Yol (True Path) Party (DYP), led by Tansu Ciller, a close friend of former British Prime

Minister Margaret Thatcher, who is both deputy prime minister and foreign minister. Ciller and her DYP cohorts are the leading British assets in Turkey.

London plans another Cyprus crisis

The Cyprus crisis was launched last May (when the London establishment knew Erbakan would become prime minister), when a senior foreign policy figure of the British Privy Council, Sir David Hannay, was pulled out of retirement and appointed to the newly created post of British Special Emissary for Cyprus. The move was timed with a European Union policy establishing a 1998 "deadline" for settling the Cyprus partition, to have the Republic of Cyprus join the EU. With no proposed settlement plan that would meet the common interests of both Greek and Turkish Cypriots, each of whom in their own way have suffered immensely under partition, the arbitrary deadline did exactly what it was really intended to do: raise tensions and create the psychological frame of mind on both sides in which a new conflict could be created.

The opening shot of that planned conflict was not long in coming. In August, while Erbakan was on a tour of Iran and Muslim nations in Asia, the "shop" back in Ankara was left in the hands of Deputy Prime Minister and Foreign Minister Ciller. Ciller took personal command of a Turkish Intelligence slush fund, and financed the deployment of up to 3,000 extremist "Grey Wolves" to Turkish Northern Cyprus. It was these Grey Wolves who staged the killing of Greek Cypriot protesters in the island's demilitarized strip, and thus began the crisis. Ciller threatened a new Turkish invasion. Erbakan was silent, and, notably, after he returned to Turkey, the violence on the island ended, and everything cooled down.

Then, in January, a new round in the crisis began with the Russian sale of modern S-300 surface-to-air missiles to the Republic of Cyprus. In military terms, this defensive weapons system does not constitute a threat to the Turkish position on

the island, given the 3-1 superiority of the Turkish Army over the Cypriot National Guard on the island. Politically, the Greek Cypriot side, knowing the sensibilities of the Turkish military, committed a provocative blunder. Ciller, joined by the Turkish military leadership, under General Staff head General Karadayi, threatened military action, even a new invasion, should the missiles be deployed. Again, Erbakan, the "Islamist" cast as a "fanatic," had the least heated reaction of the Turkish leadership. Then came the news that the missiles would arrive, if ever, in 16 months, and with that, the crisis cooled down.

The timing of the January tumult was not coincidental. On Jan. 4-5, Erbakan had hosted a meeting in Istanbul, of the foreign ministers of Turkey, Iran, Indonesia, Malaysia, Nigeria, Bangladesh, Pakistan, and Egypt (represented by its deputy foreign minister), to create a new grouping, the "Developing 8." Erbakan presented the D-8 as a vehicle to "put an end to the Western industrial nations' domination over the developing sector." Membership in the new group, which, as Iranian Foreign Minister Ali Akbar Velayati stressed, represents 800 million people, would be open and the D-8 would expand multilateral cooperation in various fields, as well as through political consultation. The Swiss bankers' newspaper *Neue Zürcher Zeitung* commented at the time, that the D-8, as interlocutor of the Group of Seven industrial nations, would "represent the rights of the developing countries in Asia and Africa, which are identical to the Islamic world. In the name of these developing countries, the D-8 should even co-determine the birth of a new world order." While the Swiss paper pinpointed the potential, that the D-8 might revive the Non-Aligned Movement, Erbakan's critics inside Turkey ridiculed him for having "delusions of grandeur," of setting up an "Islamic club," and so forth.

The plot to topple Erbakan

Erbakan, to become prime minister, also agreed to a rotation system, whereby Ciller should become prime minister in 1998. As Erbakan knows, were that to happen, the grand Eurasian development design which he is working toward, would be overturned. It is an open secret in Turkey that Erbakan, out of necessity, is maneuvering to arrange the fall of his coalition government on his terms, i.e., followed by new elections. It also means launching this move at the point where the DYP will be at its weakest, and Refah at its strongest. Since autumn, Ciller and the DYP have been continually discredited through scandals alleging connections of Ciller, her husband, Ozer Ciller, and many top DYP figures, to organized crime, the heroin trade, and corruption.

To date, Erbakan has mobilized to "protect" Ciller in every parliamentary vote on whether to investigate her. The effect of this is the exact opposite of what it appears: By keeping her on a "hook," she and the DYP become weaker each month, as new scandals emerge. When the plug is pulled, in new elections, the DYP would collapse into peripheral party status, while Refah would be the leading party and likely

to pull 30% or more of the national vote. Under Turkish electoral law, especially under conditions of relatively small votes for other parties, Refah, with as little as 33-35% of the vote, could end up with an absolute majority in the parliament.

During January, Erbakan made three moves toward expanding his potential 1997 voter base, and to defuse British-induced attempts to drive what could become a wedge between him and the Turkish Armed Forces. These were: granting a 30% pay raise to all Turkish civil servants; granting a 100% pay increase to all soldiers and officers; and visibly joining with the military leadership to denounce the international "human rights" lobby for its attacks on Turkey. Then, along came the "Sincan" incident.

The Sincan provocation

On Jan. 31, a crowd of Refah supporters was addressed on "Jerusalem Day," in the town of Sincan, on the edge of Ankara, the capital, by Iranian Ambassador Reza Bagheri. The event was sponsored by Sincan's Refah mayor, Bekir Yildiz, a notorious figure in the radical Islamic wing of Refah, and, as subsequent events showed, was designed to damage Erbakan. Allegedly, both the Iranian ambassador and the mayor made subversive statements, demanding that Turkey be turned into an "Islamic state," under "Islamic law." The Turkish media reported the event thusly, creating a uproar in the military and the non-Islamic parties, with the heated denials by the Iranian ambassador lost in the shuffle. These denials were buttressed by the government of Iran, which refused to allow the incident to poison relations. Messages of congratulations on the anniversary of the Iranian revolution were sent by Turkish President Suleyman Demirel, and greetings at the end of the Muslim holy month of Ramadan were exchanged.

The Sincan incident was timed with British appointments that showed that London is committed to both destabilizing Turkey internally, and to a Cyprus conflict. On Jan. 29, Sir Kieran Prendergast, Britain's ambassador to Turkey, former head of the Foreign Office's Greek desk, and a Cyprus expert, was named UN undersecretary general for political affairs. One day later, Prof. Norman Stone of Oxford, a close friend of Margaret Thatcher and a trustee of the Thatcher Foundation, announced he was going to Ankara in March to become Professor of International Relations at Bilkent University, and to set up an "Institute for Russian-Turkish Studies" there.

Through Sincan, and the mountains of coverage spun around it, the damage had been done, despite a pointed intervention by Erbakan. On Feb. 2, the end of Ramadan (in Turkish, Ramazan), he declared on television: "Adoption of the secular state was a turning point in the rise of the Turkish Republic, enabling the reconstitution of religious freedom in our country with a pluralist political democracy." Nonetheless, coup rumors began sweeping Turkey. On Feb. 2, General Staff head General Karadayi declared the Army was the "guarantor of the constitution" and would ensure the "separation of religion and state." On Feb. 4, units of a Turkish armored division drove tanks through the main street of Sincan,

in a distinct warning to Refah. There is no real threat of a military coup now, but the coup scare was integral to setting up a concerted move by an alliance of opposition political forces, including the Democratic Left Party (DSP) of former Prime Minister Bulent Ecevit; the ANAP, or Motherland Party of former Prime Minister Mesut Yilmaz; and powerful forces within the DYP, all to topple Erdogan.

On Feb. 5, both Ecevit and ANAP announced they would present a motion of no confidence in the parliament, which they did, and the showdown vote is scheduled for the last week of February. Ecevit thundered, "With this meeting [Sin-can], the secular democratic republic has been clearly challenged, and the rehearsal to carry the dark and oppressive Iranian revolution to Turkey has been put on stage." The third main opposition party, the Democratic Republican People's Party (CHP), joined Ecevit and ANAP in backing a no-confidence vote. Senior CHP official and MP Guldal Okutucu declared: "Soon, they [Refah] will be forcing everyone to wear the *chador*. And those who don't will have their faces slashed with razors. Turkey will become like Iran, if these people have their way."

All these parties taken together could not topple Erdogan. However, during Feb. 10-17, a series of meetings started among the most influential DYP figures, except for Ciller. In the words of the meeting's sponsor, Necmettin Cevheri, the most influential DYP politician after Ciller, they are to discuss "building a grand coalition" of all parties (DYP, ANAP, CHP, DSP) to the exclusion of Refah. He added, that the agreement, in order to function, would exclude both Ciller and ANAP leader Mesut Yilmaz from cabinet posts, due to mutual animosities. Ciller denounced the proposed grand coalition, because if she's frozen out, she and her husband will end up on trial.

However, the plot to topple Erdogan could succeed. The first cabinet minister, Health Minister Yildirim Aktuna, has threatened to resign, and denounced Erdogan and Refah, saying: "Those who agree with me in the DYP are plentiful." Meanwhile, the intensity of the accusations against Refah are rising. On Feb. 12, Ecevit accused Refah of "rehearsing a bloody accession to power," alleging that since 1990, some 100,000 handguns, rifles, and shotguns had been "distributed illegally to Refah members." He was echoed by Yilmaz, who repeated the charges, saying, "Something has to be done, urgently." These accusations are also designed to convince the military that Refah, should it fall from power, would put Turkey through a repetition of the civil war-like bloodbath of the late 1970s that preceded the 1980 military coup.

The accusations also show, that should Erdogan survive the vote, and even maneuver the situation into new elections, he will not be out of danger. The war between real Turkish national interests and those working, wittingly or unwittingly, for foreign interests, will not stop. London will do everything possible to prevent the grand design breakthrough from becoming irreversible.

Interview: Seyed Hossein Mussavian

Regional cooperation will bring prosperity

His Excellency, Mr. Seyed Hossein Mussavian, is Ambassador of the Islamic Republic of Iran to Germany. Mr. Mussavian, who has held the post in Bonn since 1990, granted this interview to EIR on Feb. 13.

EIR: Your Excellency, great progress is being made in Iran on various infrastructure projects, especially transportation, which are linked to the Silk Road project for Eurasia. We have just read that the Kerman-Zahedan rail stretch [toward Pakistan] will be completed by the year 2000, and that Iran will be hosting the second international conference on the Silk Road next year. There has been a flurry of activity in Teheran, with visits of government representatives from many Central Asian Republics, as well as Armenia, Pakistan, and Russia, to discuss both the economic aspects and political initiatives to establish peace in the region. What is your evaluation of the progress being made?

Mussavian: In the name of Allah. Regional cooperation is the policy of the Islamic Republic of Iran. Through this policy, not only will the people of the region come closer to each other, but it also brings prosperity to the countries which for years were ignored [and deprived] of basic infrastructure projects, like transportation.

EIR: In November, the Indian paper *The Hindu* published an article, by a member of the Institute for Defense Studies and Analysis there, stressing the need for India to become actively engaged in the southern route of the Silk Road, which would go through Pakistan into Iran. Can you tell us something about cooperation with India on this—and on the pipeline?

Mussavian: We do have good relations with India. If we succeed in interconnecting the regional cooperation, particularly in the economic fields, then it will be a good promotion of peace and security in the whole region. The talks on the gas pipeline to India via Pakistan are going on, and, I hope, in time, it will be implemented because the will is there [on all sides].

EIR: The Pakistani elections have brought a new government to power, which may entail a shift in policy toward Afghanistan. There have been many contacts between Iran and Pakistan, and a visit of President Rafsanjani has been announced to Islamabad. It has been reported, that the Chinese

have indicated to Islamabad, their concern about Afghanistan. How do you evaluate the possibilities for Iran and Pakistan, to intervene jointly, to end the Afghan war?

Mussavian: Both Iran and Pakistan know the strategic importance of bilateral relations. The Islamic Republic has always indicated that the regional problems and crises should be solved by regional cooperation. The officials of both governments of Iran and Pakistan are in contact, in hopes of bringing stability in Afghanistan with the participation of all concerned groups.

EIR: Despite the pressure being exerted by U.S. Sen. Alfonse D'Amato (R-N. Y.), and others of his faction, to contain Iran through sanctions, the Europeans seem to be proceeding with their "critical dialogue" approach. There was a glowing report by Chairman of the German-Arab Society Moellemann, following his recent visit, and there seems to have been a breakthrough in relations with Italy. Can you tell us more about what the Italian government has agreed upon, during the visit of the Iranian delegation last month? And, how are relations with Germany?

Mussavian: In fact, it is more in the interest of Europe to have a "constructive dialogue" with Iran. Today, the Islamic Republic of Iran is quite different from the Iran of the Shah's time. Unfortunately, some U.S. politicians' way of thinking is out of date. Either they don't have good knowledge of the present situation in Iran, or they—I have to say—are serving their personal or foreign interests against the will of the U.S. people's interests.

Today, Iran has a great role in the Islamic world. Iran is a regional power. Iran is very active in bringing peace and security to the whole region, which includes the vast area of Central Asia. We have ECO [Economic Cooperation Organization] cooperation in the region. You might be surprised to hear that some East European countries have requested membership in the ECO. In the near future, we can well establish a kind of cooperation between the ECO and the European Union. Fortunately, these facts are known to the Europeans. On the basis of mutual respect and non-interference in the internal affairs, we can and are ready to improve our relations with European countries, particularly the EU.

Mr. Moellemann's visit to Iran was a normal visit. On the other hand—I am sure you have the economic statistics—our relations with other EU countries are improving steadily. One might say that our relations with Germany are not as they should be. We are not using all the positive available potentials in bilateral, regional, and international fields.

EIR: Every time progress is made in the "critical dialogue," scandals, allegations, and diplomatic incidents occur, as if deliberately, to sabotage peaceful relations. I am thinking of the Mykonos trial in Berlin, which insinuated responsibility of members of the Iranian government, the recent stories spread about an Iranian citizen, Sarkhohi, who claims he was

forced to admit being a German spy, and so forth. What do you think about these stories?

Mussavian: Mr. Sarkhohi is an Iranian national. He was trying to leave the country illegally and he is accused of spying. But the attention paid to it in the Western mass media is surprising, which might create some doubt [raise some questions]. One has to remember that the judicial system in the Islamic Republic of Iran is independent. About the Mykonos trial: We have always asked the German authorities for the court to proceed and end without outside influences. Sarkhohi's case has nothing to do with Mykonos. The "critical dialogue" is a two-way street. Naturally, it has its ups and downs.

EIR: Relations with Turkey, which have developed very positively under Prime Minister Erbakan, are also being targeted, it appears. How do you evaluate the recent incident in Sincan, where the Iranian ambassador was criticized for statements he allegedly made?

Mussavian: Relations between Iran and Turkey, as two important as well as powerful Islamic neighbors, are very good. Our ambassador was supposed to return to Teheran six months ago. The Sincan speech, definitely, will not affect relations.

EIR: On the initiative of Turkey's Prime Minister Necmettin Erbakan, the D-8 meeting took place in Istanbul, with government officials from Turkey, Iran, Indonesia, Malaysia, Nigeria, Bangladesh, Pakistan, and Egypt. Iran's Foreign Minister Ali Akbar Velayati spoke about the initiative as the first step toward a broader grouping in the non-aligned world. There has been some mention of a D-8 development bank, as well. Can you tell us more about this?

Mussavian: As you mentioned, it is the beginning. There are lots of areas in which the Islamic countries' cooperation, both members of the non-aligned as well as regional groups, could be worked out.

EIR: How do you view the possibility of reestablishing mutually beneficial relations with Iraq?

Mussavian: Recent acceptance of the UN resolution by Iraq is a positive sign. This is our belief, that we could overcome the regional problems only by regional cooperation. Iraq has to show some good will. Recently, we have had a process of exchange of POWs. Security arrangements in the Persian Gulf region can be successful only when all the countries in the region are involved. We are still in the process of "confidence building."

EIR: How do you see the perspectives for improved relations with the second Clinton administration?

Mussavian: I don't see any change or development. But the release of Iranian assets by the United States could be a gesture of good will in this regard.

Foreign invasion is designed to wreck Sudan's internal peace initiative

Dr. Ghazi is the Secretary General of the National Congress in Sudan. The interview was conducted by our Wiesbaden office, in early February.

EIR: We understand that the invasion of Jan. 12, was mounted by Ethiopian and Eritrean troops, accompanied by a handful of guerrillas from the Sudanese Peoples Liberation Army (SPLA). Who was behind the invasion, and why was it started at this point in time?

Dr. Ghazi: Anthony Lake, the national security adviser to the U.S. President, expounded the "Sudan policy" of the U.S. government in a public lecture in March 1995. He explicitly pointed out that the U.S. government would harass the Sudan through some of its neighbors; Ethiopia, Eritrea, and Uganda are the biggest recipients of U.S. and European aid in sub-Saharan Africa. No wonder, therefore, that they took it upon themselves to implement those vows made by Mr. Lake.

Sudan does not rank very high in U.S. priorities. It therefore remains susceptible to the vagaries of gambler-politicians and policy proposers in Washington who, in turn, are influenced by a host of interests not truly representative of the American nation.

The invasion was carried out at this particular point in time to scuttle the internal peace process, which had started to bear fruit.

EIR: How do you relate the invasion of Sudan, with the operations, out of Uganda and Rwanda, against Zaire?

Dr. Ghazi: For the past 200 years, Africa has served as the guinea pig for experimenters of the world order. Now a new world order is being shaped; in so doing, new borders are being drawn to suit the new plans. The handiest place to do this is Africa, for it had not known official borders or nation-states until the colonizers arbitrarily drew the present "illogical" borders defining spheres of Anglophone and Franco-phone influence.

The most delicate, and one of the richest regions in Africa, is the lakes region, containing the aforementioned countries, in addition to Burundi. These also constitute four of the nine riparian countries of the River Nile, which adds a Mideastern dimension to the question.

Although our adversaries painstakingly deny any intention to partition the Sudan by nibbling away its southern part,

we know that the new colonialist plans would not be complete without exactly that. The major stooge in the "lakes region" part of the plan is Yoweri Museveni of Uganda, a Marxist-turned-pro-imperialist after he was orphaned by the collapse of the Soviet empire. The minor stooges are the Eritrean and Ethiopian regimes.

EIR: The leaders of Ethiopia, Eritrea, and Uganda seem to be clearly aware of what they are doing and for whom. Statements by Yoweri Museveni, to the *Financial Times*, for example, document this. But what is the reality inside these countries? How are their populations responding to their launching aggressive war?

Dr. Ghazi: The populations of those countries are eyeing the actions of their rulers with suspicion and confusion. They know for certain that their real interests lie in maintaining peace and cooperation with the Sudan. The Ethiopians and Eritreans, in particular, realize from historical experience that war with Sudan can only bring devastation to their countries and the region at large. Also, they know from experience that, by being constructive and cooperative, they can bring about prosperity to the whole region. They are confused, therefore, about whose interests are being served while their governments maintain a hostile, rather than a friendly posture toward the Sudan.

EIR: The National Democratic Alliance (NDA) moved to Asmara, to set up the operations which we are now witnessing, in collaboration with John Garang and the SPLA, The political opposition leader of the Umma party, Sadiq al Mahdi, has been calling for an "uprising" in Khartoum, but some press correspondents on the scene, have reported that there is no hint of any such insurrection. Sadiq al Mahdi himself is travelling through the Persian Gulf. What do you make of this?

Dr. Ghazi: Sadiq al Mahdi is a false prophet of democracy. What many people fail to see is that, despite the great clamor about democracy, he is defining his own legitimacy as derived from heredity rather than free democratic elections. [Sadiq al Mahdi is the grandson of the "Great Mahdi," spiritual and political leader of Sudan in the 19th century—ed.] He presides over a party which has never experienced democracy within itself.



Dr. Ghazi Salahuddin Attabani meets with the LaRouche delegation, during a visit to Sudan in December 1996. From left: Helga Zepp LaRouche, Lyndon LaRouche, Dr. Ghazi Salahuddin Attabani, Muriel Mirak Weissbach, and Dr. Abu Dakr Shingeti, from the office of the President of the Republic of Sudan.

Despite their diametrically opposed origins, Sadiq al Mahdi and John Garang share a trait common to many Third World politicians. John Garang, who presented himself to the world through a Marxist manifesto, now poses as a devout Christian crusader when in the West, but as a keen Arab nationalist, when in the Arab world. He even recently formed an Islamic council in order to begin marketing himself in the Islamic world. Likewise, Sadiq al Mahdi is an ardent democracy activist when in the West, is an ultra-conservative, traditional Arab politician when in Arab countries, and is a ferocious fundamentalist, invoking all the legacy of the Great Mahdi, when in the Sudan. What we are watching now, is Sadiq al Mahdi on a spree to solicit support and money from some Arab states. When recently in Kuwait, he poured abuse on the Iranians and the Iraqis, the very countries he staunchly supported and heaped praise on when he was in power.

Sadiq al Mahdi is out of touch with reality. He thought an uprising would take place in Khartoum in his support; however, what is happening now is a true uprising against him.

EIR: The office of Baroness Caroline Cox, the deputy speaker of Britain's House of Lords, has stated, that this war should be seen as a "paradigm" for the kind of "clash of civilizations" that Samuel Huntington promotes. Cox's aide has been quoted saying that Arab and Muslim states would line up in support of Sudan, whereas African states would oppose it. What is the reality of the situation?

Dr. Ghazi: I have not read that statement, but I would have expected it from the likes of Cox. It is the same old doctrine of "divide and conquer." isn't it? In the last century, it was Gordon Pasha and Kitchener Pasha with their devastating Maxim guns, and now it is Baroness Cox with her dubious

organization [Christian Solidarity International]. It should surprise no one to find out that Africa—the guinea pig of the new world order—is being turned to for "paradigms" and "models" to experiment with.

EIR: How can this aggression be ended? There is an initiative passed in the German Parliament, calling for the German government to intervene, to promote a negotiated solution. A group of U.S. elected officials, who conducted a fact-finding tour of Sudan last September, has endorsed the initiative, and urged the United States to promote peace. The resolution talks about the Inter-Governmental Authority on Drought and Development (IGGAD) process, and the "friends of IGGAD." What is your view?

Dr. Ghazi: These initiatives represent a break with the traditional policies of many Western governments, hence they are welcomed by us. I hope that more initiatives will be made which will create a new momentum for peace in the Sudan. We are aware of the regional and international influences on the problem of southern Sudan. Hitherto, these influences have been negative. Any positive influence provides a bonus for the peace process.

EIR: What will happen if the aggression is not ended?

Dr. Ghazi: Sudan has a great capacity for endurance. We know that we can not appeal to the wisdom of the promoters of this aggression, because their ultimate goal is to redraw the African borders, as I mentioned earlier, and the best way to achieve this is through such aggression. However, we are confident that we have the ability to push back the aggressors and turn their apparent success into failure and a political liability, something which we have already started to achieve.

London's Museveni runs extermination campaign in Zaire

by Linda de Hoyos

Ugandan President Yoweri Museveni was forced to defend himself in Paris, during a working visit there on Feb. 1-12, from charges that Ugandan troops are in Zaire, waging war against the government under the cover of mercenary Laurent Kabila's Alliance of Democratic Forces. The grilling of Museveni in Paris followed reports from U.S. State Department spokesman Nicholas Burns on Feb. 5 that Museveni had been told by Secretary of State Madeleine Albright to withdraw his troops from Zaire.

In Paris, Museveni categorically denied the charge, stating: "There are no Ugandan troops in Zaire, and there will never be." But a few hours later, it was reported that on the night of Feb. 10, a cargo plane carrying Ugandan troops and military equipment into eastern Zaire crashed inside the Zairean border, a senior Defense Ministry official of Zaire reported. The Zairean official said: "It was a cargo plane from Uganda. A contingent of Ugandan troops were on board. Several people died, but the death toll is not yet known. The survivors have been captured by a group of Zairean soldiers who were around the crash site."

Despite the growing evidence of Ugandan, Rwandan, and Burundian troops inside Zaire, and despite official protests against the invasion of its territory lodged by Zairean officials to the United Nations Security Council, the Security Council has remained silent on the matter, and so far, the invasion force is operating with impunity.

The primary victims of the Ugandan invasion are the Rwandan Hutu refugees. Kabila et al. are now besieging the refugee camps at Lubutu and Tingi-Tingi, where refugees are congregated, but have not received food, water, or medical supplies. On Feb. 9, Kabila demanded that over 100,000 Rwandan refugees in the Tingi-Tingi camp in Zaire be "permitted" to leave the camp on foot—a death march given their condition. Only the day before, UN High Commissioner for Refugees, Sadako Ogata had been at Tingi-Tingi, and expressed "horror" at the condition of the 127,000 refugees there.

All aid workers left the camp on Feb. 8, as Kabila threatened that his forces were only 12 miles from the camp, and demanded the UN force the refugees out so he would not have to attack the camp. However, as Kabila et al. move closer, a reported 35,000 more refugees have come into Tingi-Tingi, as the Ugandan forces send them fleeing from the bush.

It is widely believed that Ogata has used her office at the UN to force the refugees back into Kabila's "humanitarian corridor." The Rally for the Return of Democracy in Rwanda (RDR) issued a statement from Nairobi, Kenya on Feb. 10, charging that Ogata had "deliberately" abandoned the refugee camps for political reasons. "The UNHCR has used every means possible to get the refugees back to Rwanda, and wants now to starve them to force them to go back," the statement said. "If it is true that repatriation is indubitably everybody's objective, there are factors that must not be neglected: the physical and psychological state of the refugees, and the security situation in Rwanda, which is deteriorating."

Within Zaire itself, Western press outlets report that Kabila et al. are carrying out a campaign of "extermination" against the Hutus still in Zaire. As reported in the Feb. 12 *New York Times*: "Credible witnesses said rebels swept into the small town of Shabunda the other day, encircled as many of the 40,000 or so Rwandan refugees as they could, separated out the young Hutu men and machine-gunned an unknown number. The others were simply allowed to go. . . . There are as many as 300,000 Rwandans stranded in Zaire. Most are ordinary men, women, and children, but it is widely believed that there are also thousands of former Hutu militiamen and soldiers. Many of these people already risk death from starvation, dehydration, and disease, but for their pursuers, that is not enough."

Bizimungu aide admits to slaughter

There can no longer be any pretense that there is safety for the refugees within Rwanda. On Jan. 28, in the capital city Kigali, Joseph Bideri, media adviser to Rwandan President Pasteur Bizimungu, admitted to the press that the Rwandan military was simply killing people in two prefectures of Ruhengeri and Kibungo. He said point blank: "We are killing people but these are the people who carried out the genocide in 1994"—although there has been no due process of any kind. The recent spate of killings of aid workers in Rwanda is also part of the process. Either the Rwandan government is killing the workers in order to force all non-governmental organizations and international organizations out of the country, in order to carry out mass murder in Rwanda under a shroud of silence; or, the aid workers are being killed by Hutu militants as charged. One explanation for this, according to Rwandan sources, is that the aid workers are pinpointing the Hutu refugees to the Rwandan military, which guns them down in the same fashion as Kabila's Rwandan-Ugandan forces do in Zaire.

There is widespread agreement among European and African capitals: Unless the Ugandan, Rwandan, and Burundian military is forced out of Zaire—at which point the Kabila rebellion collapses—the extermination directed by Museveni on behalf of the British Privy Council, which conveys its wishes through Baroness Lynda Chalker, will continue, producing the most concentrated genocide of the 20th century.

Islamabad establishment gets another chance to redeem itself

by Susan Maitra and Ramtanu Maitra

The overwhelming electoral success of the Pakistan Muslim League (Nawaz), the PML(N) (led by former Prime Minister Mian Nawaz Sharif), the blanking out of the London-Zionist lobby upstart Imran Khan, and the depletion of the most-powerful political party, the Pakistan People's Party (PPP), under the twice-ousted Prime Minister Benazir Bhutto, were the highlights of the Feb. 3 elections in Pakistan. This was the fourth Pakistani general election since the death of military ruler Gen. Mohammad Zia ul-Haq, in August 1988. Three earlier polls had brought Bhutto and her party to power twice, and the PML(N), once. President Farooq Leghari, wielding the eighth amendment clause of the Pakistani Constitution, had ousted all three of these governments, long before their expiry date, on grounds of corruption.

Increasing despondency among Pakistani voters was observable as soon as the Caretaker Cabinet, headed by President Leghari, ousted the Bhutto government and announced Feb. 3, 1997, as the next election date. Leghari was a PPP stalwart who had been hand-picked for the President's post by Bhutto, whom he then turned against. Accusations of corruption against the Bhutto government, and the arrest of Bhutto's husband, Asif Ali Zardari, on charges of conspiring in the assassination of her brother, Murtaza Bhutto, a few months earlier, were part of a gameplan to sideline her.

President Leghari then used an executive order to constitute the Council for Defense and National Security (CDNS) for the interim period. The council has five top civilian officers of state—the President, prime minister, and ministers for defense, foreign affairs, and finance—with four serving top generals and headed by the chairman of the joint chiefs of staff committee. The CDNS will reduce the prime minister's powers, while increasing that of the generals.

A transplant from London

Having made clear their intention to keep the controls firmly in their own hands, authorities within and outside of Pakistan, such as the Pakistani bureaucrats linked to the World Bank and the International Monetary Fund, began to influence public opinion. They promoted the choice between Imran Khan (Sir Jimmy Goldsmith's son-in-law and Pakistan's former cricket hero), and Mian Nawaz Sharif, the Zia ul-Haq protégé and head of the Ittefaq business group, the

largest in Pakistan. It was evident that President Leghari wanted Sharif to win the elections.

During the election campaign, while Bhutto was engaged in battling President Leghari, Nawaz Sharif was fighting off Imran Khan. Pakistani voters' rejection of Imran Khan was so complete that he could not garner even 10% of the votes polled. Sir Jimmy, who along with his Rothschild wife and his daughters, had landed in Lahore with the far-fetched hope of congratulating his son-in-law on the occasion of a victory, was left most disappointed.

The electoral failure of Imran Khan (widely known in South Asia as "Im the Dim"), despite an open endorsement by the caretaker prime minister, Malik Miraj Khaled, can be attributed to the following factors: Imran's marrying into the Goldsmith-Rothschild house was successfully exploited by Nawaz Sharif, and the cricket star's posturing as a "devout Muslim" while trying to avoid his "playboy" past was not bought by the electorate. The populace also distrusted Imran's sudden switch from charity—building a cancer hospital in his mother's memory—to full-fledged politics around a banner of "anti-corruption." In addition, Imran's earlier statement that his political career was launched by Hamid Gul, the former Pakistan Inter-Service Intelligence chief and contributor to the post-Soviet Afghan chaos, may, in effect, have made him lose a few more votes. His later statement that Malaysian Prime Minister Dr. Mahathir Mohammad is his present political mentor did not sink in with the electorate.

Tasks and problems

Having won the elections, Nawaz Sharif has little time to rest on his laurels. Given his mandate, the excuse for the next government not doing the needful is sharply reduced. The issues Nawaz Sharif will have to deal with as prime minister are:

- Pakistan is in a difficult economic mess. The nation's financial policy control, for all practical purposes, has been handed over to the World Bank-International Monetary Fund duo by the caretaker cabinet, and these international institutions are keen to push through fiscal austerity measures, regardless of political consequences.
- Ethnic violence is ripping through Pakistan's loosely woven social fabric. Shia-Sunni violence, which put neigh-

boring Iran on guard; the endless violence in Karachi between the Mohajirs, Sindhis, and PPP members; and the recent anti-Christian violence in Punjab may or may not have foreign interference, but all of this together has the potential to blow Pakistan apart.

- The complex Afghanistan situation, which may move into a different level if and when the Taliban militarily control the whole state of Afghanistan. Already, refugees, this time Tajiks and Uzbeks, are leaving their homes in fear of a fresh round of violence against them by the advancing Taliban-Pushtoon militia. In due time, Abdur Rashid Dostum, the Uzbek Jumbash-e-Milli leader, and Ahmed Shah Masood, the Tajik leader and former defense minister, are expected to leave Afghanistan and head toward Uzbekistan and Tajikistan, respectively, to wage guerrilla warfare against the Taliban. Pakistan, meanwhile, has got itself too well identified with the Taliban, and, in essence, Saudi, American, and British interests in the region.

- Internally, Nawaz Sharif, who was ousted in 1993 by former President Ghulam Ishaq Khan, is obligated to use his two-thirds' National Assembly majority to constitutionally amend the eighth amendment, which has been the bane of all elected governments in Pakistan.

- Finally, by trying to do what he must do, Mian Nawaz Sharif will find out what the CDNS will stand for, and how this new coalition of Pakistan's power troika can be directed toward a meaningful goal. The first challenge, perhaps, will be for Nawaz Sharif to improve trade relations with India, and, in due course, to ease the Kashmir dispute. Beijing has already indicated that this should be the course of future Islamabad policy vis-à-vis Kashmir, and Nawaz Sharif seems to be more than willing to move in that direction. If Nawaz Sharif faces opposition from the very establishment that has allowed him to be the next prime minister, he will become a prime minister in name only.

At the same time, Nawaz Sharif should feel blessed by the timing of the elections. The Pakistani elite, dominated by the landed gentry, military, and the bureaucracy—all part of one extended family—is losing credibility within the population, as indicated by the low turnout at the polls. More important, however, are the indications that Pakistan must shift its course now: the economic disparity and economic frustration among the poor; growing unemployment, which leads to adopting criminal activities as a career; the complete breakdown of law and order; and the total discrediting of all institutions, including that of the military.

Loud voices can be heard from across the border, demanding open trade with India and even an open border. It is, therefore, no surprise that, for the first time in Pakistani electoral history, there was no anti-India campaign, and the Kashmir issue was not used to garner votes. These are the positive indicators, and Mian Nawaz Sharif must build on that for his own success.

Ecuador's cuckoo falls from the nest

by Valerie Rush

On Feb. 7, two million Ecuadorans marched in the streets against their government's embrace of so-called "free market" economics, which has slammed the population with 200-600% increases in transport, electricity, and fuel costs, the planned privatization of the nation's most vital assets, and dollarization of the economy under a British-styled "currency board." The result of this mass strike was a Congressional vote removing President Abdala Bucaram from office, paving the way for new Presidential elections early next year.

Ecuador's mass mobilization against austerity was not an Ecuadoran phenomenon at all. This same grass-roots opposition to British free-trade policies is exploding around the globe, from Hongkong to Bulgaria, from Germany to the United States, from Albania to Colombia. As the international financial system collapses further into bankruptcy, its gendarmes are intensifying their efforts to gouge living standards, in order to save their dying system. Increasingly, those heads of state not prepared to defend the interests of their own populations against these supranational interests, will roll.

Ecuador still unstable

When the Ecuadoran Congress ousted Bucaram, who is as notorious for his grotesque personal behavior as he is for his corruption, "El Loco" ("The Madman") refused to cede the Presidency, which was simultaneously being claimed by Vice President Rosalía Arteaga, and by Congressional President Fabián Alarcón. The threat of national disintegration loomed, with several provinces announcing they would secede.

Ecuador's military stepped in as the ultimate guarantor of national sovereignty, and helped to broker an agreement between Arteaga and the Congress which averted civil war, and which has, temporarily at least, given the country a new President. Through a vote in Congress of 57-2 on Feb. 11, Alarcón was installed as interim President, and Bucaram's despised austerity decrees, which had been dictated by the International Monetary Fund (IMF), were repealed.

The country, however, remains extremely unstable.

Among Alarcón's first statements to the nation, was the assertion that the already-impooverished nation should be prepared for "belt-tightening and sacrifices." Not surprisingly, the response from Ecuador's largest labor union, the United Workers Front, was, "The Ecuadoran people do not want more sacrifices." The *Financial Times* of London nervously editorialized Feb. 13: "It is to be hoped that [Ecuadorans] do not expect to depose every President who takes an unpopular decision."

There is significant pressure from international banking interests, and from their media mouthpieces, for the restoration of Bucaram's economic measures, with or without Bucaram. The *New York Times*, for example, editorialized on Feb. 11, that Ecuador cannot avoid dealing with "budget-wrecking subsidies and restrictive regulations" which go against the trend of a region "committed to market reforms." The *Washington Post* on Feb. 12 lamented in its editorial that "Ecuador now lacks both the constituency to support necessary further major privatizations, and the capacity otherwise to attract foreign private capital." On Feb. 13, the *Post* cited an unnamed "diplomat" threatening Ecuador with reprisals, should it put up resistance: "Once international lines of credit get shut off, this country will go down the chute."

What all this huffing and puffing is about, is that the Ecuadoran mass strike served as a direct rebuff to the international bankers' "golden boy" Domingo Cavallo. Formerly Argentina's finance minister, Cavallo—along with his staff—was hired for \$10 million to advise Bucaram shortly after the latter's accession to the Presidency last September. Cavallo is the infamous architect of Argentina's so-called "convertibility plan," a British-modeled currency board from the colonial era, which pegs the national currency to the U.S. dollar and strips the government of any decision-making powers on economic policy. Cavallo was recommended to Bucaram by none other than drug legalization bankroller and international master-speculator George Soros.

It was Bucaram's Dec. 1, 1996 announcement of an Argentine-style "convertibility plan" that triggered the initial protests from both labor and business circles in Ecuador. And, in a Feb. 11 interview with the Argentine daily *Clarín*, Bucaram admitted that it was precisely Cavallo's convertibility plan that led to the "conspiracy" against him.

Sovereignty vs. 'democracy'

There is also a great deal of distress in "Project Democracy" circles over the Ecuadoran military's "behind-the-scenes" role in bringing the Presidential crisis to a quick resolution. Geopolitician Roger Fontaine screams in the pages of the *Washington Times* on Feb. 12, that Ecuador "has opened a Pandora's box. It has invited the military to take sides at a time when the region's armed forces had been in an increasingly politically quiescent state."

The Feb. 11 *New York Times* editorial similarly complains that "democratic legitimacy was undermined, [and] the military drawn deeper into civilian politics." It is this same editorial, in fact, which was cited by Argentine President Carlos Menem to justify his defense of Ecuador's "El Loco," something no other head of state on the continent has dared.

Bucaram himself would exploit this cultivated obsession with the trappings of "democratic legitimacy," which has been used so effectively by the international financial oligarchy and their "human rights" fronts to target the continent's armed forces for annihilation. In an interview with Colombia's Caracol radio network, he warned: "The Latin American community wants no such Pandora's box . . . that could turn into a habit. If Bucaram does not go back, it will set a bad example and we'll have dictatorships in all countries."

Ecuador has given us 'a beautiful lesson'

The precedent of a mass strike driving out an Ibero-American government for imposing the IMF's killer austerity prescriptions has dramatically changed expectations across the continent. Nowhere is this more visible than in neighboring Colombia, which is itself currently in the throes of a nationwide strike directed, as in Ecuador, against a combination of brutal austerity, privatization schemes, anti-labor policies, and widespread corruption. The strike, which was launched on Feb. 11 by the country's labor federations, has been joined by political opposition forces of every stripe, as well as by the organization of military and police reservists, and others, turning it into a plebiscite against the ruling government of narco-President Ernesto Samper Pizano.

On the first day of the Colombian strike, which has been declared "indefinite," 100,000 citizens initially poured into the streets in the capital city of Bogotá, bearing signs that read: "Samper and Bucaram: Two Cases of Mental Dwarfism," and "Down with Samper's Narco-Government." Columnist Luis Carlos Sachica of the anti-government daily *El Espectador* wrote: "It is a beautiful lesson that the Ecuadorans have given us."

The lead editorial of *El Espectador* that same day issued a clarion call: "Preserving democracy from obstructions which nullify it, is, no doubt, the duty of the citizens of a free country. It is not enough to elect a President. It is an indispensable corollary to know how to replace him."

A mass strike process is ongoing in Honduras, as well, where the country's 14,000 hospital workers have just joined 70,000 public sector workers in a nationwide strike against that country's austerity policies. As we reported last week, in Venezuela, where living standards have plummeted under a similar IMF program, it was the federation of public hospital doctors that led a wave of nationwide strikes to force the government to abandon a murderous IMF-imposed ceiling on wages.

International Intelligence

Baghdad daily condemns Brits' colonialist lies

The Iraqi paper *Al Iraq* of Jan. 16 reported that members of Britain's Parliament, "known for their hostility to Iraq and its people's legitimate right to reject all forms of subservience and imperialism, have launched a new propaganda campaign to influence the British public through the dissemination of lies. . . . In the context of this campaign, and its obvious vicious aims, Labor MP Ann Cloyd and Lord Avebury, chairman of the [bicameral] parliamentary Human Rights Committee, held a debate in the House of Commons the day before yesterday on the topic: 'Trial of Iraqi War Criminals.'

"British MP Ann Cloyd and her colleague Lord Avebury are two glaring examples of the British colonial mentality and arrogant racism, which was associated with the monopolies and companies which plundered peoples' resources in the old colonial times. But, what is most ridiculous and nauseating, is Ann Cloyd's and Lord Avebury's defense and bemoaning of the Iraqi people, when they are fully aware of the crimes and sins which Britain had committed against the Iraqi people during its 40-year odious colonialization of Iraq."

'Asia Times' put its words into Lebed's mouth

The *Asia Times* indulged in fakery by translation, in its eagerness to attribute to Russian politician Aleksandr Lebed, an endorsement of the so-called "Southeast Asian model" of economy. In its Jan. 20 "Off the Record" column, the *Times* purported to quote from Lebed's speech at the German Society for Foreign Policy forum in Bonn on Jan. 15, as follows: ". . . Those countries, like Thailand, Malaysia, and Singapore, created the foundations for their amazing economic growth on the basis of their own unique national models, which contained strong central government regulation and control, not the advice of the IMF [International Monetary Fund]."

The text of Lebed's speech, published in the Russian daily *Nezavisimaya Gazeta* on Jan. 23, gives that sentence as follows: "Russia should study . . . the experience of the countries of the Asia-Pacific region, which, incidentally, created the foundations for their prosperity not according to prompting from the IMF, but on the basis of their own models and approaches."

EIR's correspondent, who attended the Jan. 15 lecture, confirms that Lebed departed from his written text, and made impromptu reference to the Witte and Stolypin reforms at the turn of the century, and did not name any specific Asian countries, except China, and that in a different context. Lebed repeatedly used the term "Asia-Pacific region," which subsumes China and the "Tigers with Teeth" (e.g., Japan and South Korea), as opposed to the *Asia Times's* preferred "Southeast Asian model" of the hot-money economies, the alley-cats wearing pink ribbons that masquerade as "tigers" (see *EIR*, Jan. 31, 1997, p. 6 for a fuller report on Lebed's remarks).

Protesters take over town of Vlora in Albania

Some 40,000 protesters took over the town of Vlora, Albania on Feb. 11, following a funeral procession for two demonstrators killed by police one day earlier, in this town of only 70,000. The marching crowd chanted "Berisha is filling our cemeteries," and repeated calls for President Sali Berisha and the government to resign. The Vlora headquarters of the ruling Democratic Party was burned to the ground.

Berisha dealt gingerly with the situation, painfully aware that the country is a tinderbox after four pyramid scheme funds collapsed, in which nearly 70% of the country's impoverished population had been induced to invest. Berisha had publicly distanced himself from calls to impose martial law on the town, leaving it to Prime Minister Alexander Meksi to demand that parliament order a clampdown. On Feb. 11, Meksi's government repeated the line that the Vlora protests were led by "left extremist terrorists."

Berisha's second thoughts about martial law stemmed from fears that this could spark a nationwide upheaval, and he is moving to sacrifice Meksi and the cabinet, which was reflected by the sudden change in coverage from Radio Tirana. Starting late on Feb. 10, Radio Tirana began regularly adding the protesters' demand for Meksi and the cabinet to resign. Radio Tirana censored the calls for Berisha to leave.

MI-5 flunkies tries to sour Irish peace effort

In an interview with *Fortnight* magazine, released early this month, British intelligence undercover agent Sean O'Callaghan, claimed that Sinn Fein President Gerry Adams had suggested a plan to kill Social Democratic and Labour Party (SDLP) leader John Hume back in the early 1980s. O'Callaghan was a deep-penetration agent into the IRA during that time. This past December, Queen Elizabeth made use of a rare legal provision to have O'Callaghan freed from prison. Since then he has been used to attack Sinn Fein's credibility.

O'Callaghan's latest tale emerges at a time when there is dissension between the SDLP and Sinn Fein over strategy for the coming general elections, but, also at a time when Adams and Hume's personal efforts to restore a peace initiative have greatly intensified. Sinn Fein Chairman Mitchel McLaughlin told the media that O'Callaghan's allegations are "a lie. . . . It is but the latest of a series of wild and untrue claims that he and his MI-5 handlers have made as part of the British dirty tricks agenda."

Maurice Strong tapped to head UN 'reform'

New UN Secretary General Kofi Annan has picked Canadian Maurice Strong, former head of the eco-fascist International Union for the Conservation of Nature, as his senior adviser for UN reform. Strong is currently head of the Costa Rica-based Earth Council, which is leading the campaign for the UN to pass the Earth Charter, as "a universal code

Briefly

of conduct for states and people." The Council's periodical, *Earth Ethics*, champions human rights for apes, describing them as "our closest relatives" and "fellow animals," entitled to "the basic rights of human beings," while treated as "full members of the community of equals."

Under UN aegis, Strong headed a commission to draft a reform plan, issued in 1995 under the title, *Our Global Neighborhood: The Report of the Commission on Global Governance*. The report calls for national sovereignty to be "exercised collectively," though Strong demurs that "global governance is not global government." Strong's "neighborhood" would create a UN criminal court, enhance the role of the International Monetary Fund, strengthen the World Trade Organization for the purpose of "managing global competition," and have the UN enforce disarmament of national armed forces, while establishing a standing "UN Volunteer Force." The new, reformed UN would be funded by global taxes: "It is time for a consensus on global taxation for servicing the needs of the global neighborhood," says Strong's report.

Terrorists continue international rampage

A one-day summary of terrorism, just for Sunday, Feb. 2, shows Britain's international terrorists continue unrestrained. Most prominent is the resurgent threat of terrorism on U.S. soil. On Feb. 1, a bomb squad from the San Diego County Sheriff's Department in California, defused the third mail bomb in one day. Police said the bomb was mailed to the Chula Vista home of a federal employee. Another was received by Laidlaw Waste Systems, a waste disposal firm, in Chula Vista, and a pipe bomb was also mailed to FBI headquarters in San Diego.

• In Algeria, the independent newspaper *El Watan* reported on Feb. 2, that 31 people had been butchered in Medea, with their throats cut and heads severed. At the same time, the Islamic Jihad Armed Front (FIDA), a little-known Afghansi-linked group in Algeria, claimed responsibility for the killing of union leader Abdelhak Benhamouda,

who was said to be close to the government. The group vowed to stage more attacks against the regime of Liamine Zeroual.

• Thirty-seven bombs hit the French Mediterranean island of Corsica on Feb. 2. Although no one claimed responsibility for the blasts at banks, tax offices, and administrative buildings, it is believed to be the work of "separatists."

• Three separatists and two soldiers were killed in a gun battle in the northeastern Indian state of Assam, in the tea and oil-rich district of Tinsukia.

• In Sri Lanka, Tamil Tiger rebels killed 24 soldiers in overnight attacks in the north and east, according to military officials on Feb. 2. A large group of Tamil Tigers overran the government's Mavadivembu military camp, 125 miles from the capital city, of Colombo.

Rodionov warns: Russian military unreliable

Russian Defense Minister Igor Rodionov sent off a letter to President Boris Yeltsin and Prime Minister Viktor Chernomyrdin on Feb. 6 which contained a harsh warning about the condition of Russian military forces. Rodionov did not make the letter public, but he told members of the Russian media that a lack of funds had hit morale, reduced combat readiness, and badly affected the Armed Forces' command and control centers. "No one today can guarantee the reliability of our control systems," Interfax news agency quoted Rodionov as saying. "Russia might soon reach the threshold beyond which its rockets and nuclear systems cannot be controlled."

"Reform in the Armed Forces has turned into a struggle for their survival, a struggle against disintegration," Rodionov stated. "The whole horror is in the fact that, as Russian defense minister, I am becoming a spectator of the destructive processes in the Army, and can do nothing about it." He expressed alarm about the psychological condition of many soldiers, especially officers, saying that the number of suicides in the military, once minimal, had risen to about 100 in 1996.

EIR MOURNS the death of Colombian labor leader Pedro Rubio, 63, who died in Bogotá early this month after a long battle with cancer. A deeply religious man and founding member of the Club of Life and Schiller Institute Labor Commission, Rubio dedicated much of his life to the advancement of the international LaRouche movement. He is survived by his wife, 9 children, and 14 grandchildren.

BULGARIAN King Simeon, who lives in exile in Madrid, has offered to head a constitutional monarchy as an alternative to the tumult wracking the country, according to Spain's *ABC*. The daily also reported on Feb. 4 that Bulgarian President Petar Stoyanov nominated Prince Kyril as Economics Affairs councillor for the Bulgarian Presidency.

SERBIAN POLICE arrested over 100 ethnic Albanians in Kosova over the first week of February, according to the Democratic League of Kosova (LDK). The arrests reached a peak after three ethnic Albanians were killed in a Jan. 31 shoot-out with police near Vucitrn. Senior LDK officials held an emergency meeting, and charged that Serbian President Slobodan Milosevic was attempting to divert attention from the protests against him in Belgrade.

HANOI has denounced the launching of Radio Free Asia's Vietnamese-language broadcasts, scheduled for Feb. 6, the start of the Tet holiday, as "an assault tool of the hostile forces," wrote *Nhan Dan* newspaper Jan. 31. The paper said that a review of RFA broadcasts over the past several months into China and Tibet "always contain obvious incitements and hostility towards China's government."

RUSSIAN Federal Security Service chief Nikolai Kovalyov met with President Boris Yeltsin on Feb. 4 at the latter's country house, and presented evidence of "a significant rise in the activities of foreign special services on Russian territory," according to a Presidential spokesman.

Sanity may sink balanced budget drive

by William Jones

Somewhat chastened after their slim victory in the 1996 elections, the Gingrich Republicans have effectively jettisoned most of their much-vaunted "Contract on America." But, still clinging to one of their populist agenda items, they seem intent on pushing for a balanced budget amendment to the Constitution—one of the few carry-over items left from the "Contract," and one which could do more harm than all the others combined. Republican attempts last year to pass the same piece of legislation failed—but only by a hair's breadth. Because the general public is ill-informed about the potential havoc this amendment could wreak, with the fallacious and maudlin comparisons to a "household budget" as the dominant image, it has received less scrutiny than the other elements of the Republican "Contract."

President Clinton is adamantly opposed to the amendment and has vowed to fight it. If he is prepared to use the Presidential "bully pulpit," in tandem with the efforts of the Democratic leadership in Congress, it could be defeated—but it will require a decisive fight. Some Congressional Democrats, the so-called Blue Dog Democrats from the South as well as the self-styled "austerity" Democrats, are not in agreement with their leadership on this matter. Many of them voted last year for a balanced budget amendment, and succumbing to the populist rhetoric, many have "taken the pledge" to vote for it again. As one "Blue Dog" Democrat, Jim Chapman, a former representative from Texas, told this author, "It's tough to change your position once you have voted for a measure."

However, as most people will admit, it's tough to say no to a request from the President. If President Clinton puts his full weight behind opposition to the measure, he might be able to convince enough errant souls from his own party to sink the amendment.

A balanced budget amendment passed the House in January 1995 by a 300-133 vote. The Senate fell just one vote

short (65-35) of the necessary two-thirds when it first took the measure up in March 1995. When it was again voted on the following year, Sen. Bob Packwood (R-Ore.) had been forced out of office, and his seat was taken by Democrat Ron Wyden, who won in a special election to fill Packwood's post. In contrast to Packwood, Wyden voted against the amendment, bringing the Senate majority down from 65, to 64.

The President clarified his own position about the amendment in response to a question at a White House press conference on Jan. 28: "No one can foresee the circumstances that will come a generation from now or 50 years from now, or even 10 years from now," the President said. "And the way I read the amendment, it would almost certainly require, after a budget is passed, if the economic estimates turn out to be wrong, the Executive branch—the President, the Treasury Department—to impound Social Security checks or to turn it over to courts to decide what to be done. And it would put us in a position, in my view, of doing things that are counterproductive."

Speaking to reporters on Feb. 6, the President pointed to an additional problem: "I think it is neither necessary or wise, and it could have numerous unwanted consequences. It could throw our budget into the courts. It could force judges to make decisions they would normally never make and that they know they should not be making."

On Jan. 28, some 1,100 noted economists, including 11 Nobel Prize winners, signed an ad in the *New York Times* condemning a balanced budget amendment, calling it "unsound and unnecessary." "There is no need to put the nation in an economic straitjacket," the letter said. "Let the President and Congress make fiscal policies in response to national needs and priorities as the authors of our Constitution wisely provided."

Citing the letter of the economists in testimony before the

House Judiciary Committee on Feb. 3, Treasury Secretary Robert Rubin warned of the devastation such a measure would impose on the nation: "I believe the balanced budget amendment proposal would subject the nation to unacceptable economic risks in perpetuity. A balanced budget amendment could turn slowdowns into recessions and recessions into more severe recessions or even depressions. Secondly," Rubin continued, "it could prevent us from dealing expeditiously with emergencies such as natural disasters or military threats."

A suicide pact

Physical economist Lyndon LaRouche, the most outspoken critic of the budget-balancing mythology, explained this point most graphically in an *EIR* editorial Feb. 14: "If the Balanced Budget Amendment, as proposed by Sen. Trent Lott and others, had been in effect during the time that President Franklin Roosevelt was in office," LaRouche wrote, "Adolf Hitler would have won World War II, and the United States would not have recovered from the Coolidge Depression of the 1930s." In an interview given by Rubin at the beginning of February, he also referred to the example of Roosevelt and Pearl Harbor as the type of "emergencies" which a President would be unable to meet if he were bound in the straitjacket of a balanced budget amendment.

Rubin also attacked the fallacious argument often used by proponents of the amendment to convince waverers to vote for it, namely, that Congress could always change the legislation to meet an emergency situation. "The escape clauses it provides at best are likely to be far from fully effective," Rubin said. "Under the amendment, the unpredictability of economic conditions means that, at best, there would often be a significant time lag from when an economic problem developed until we recognized it and reached a consensus on how to solve it." The amendment would require a three-fifths super-majority in order to override its draconian provisions.

The amendment would allow a minority to hold the nation hostage to a "special agenda." "Thus, for example, 41 Senators or 175 Congressmen could throw the government into default," Rubin said. "Forty-one Senators could stop Social Security checks from going out or could advance a special agenda. In effect, a minority in either house could put the economic health of our nation at risk by refusing to waive the balanced budget requirement or refusing to increase the debt limit unless that minority's agenda was satisfied, and that agenda could be budget related or related to social policy or any other matter."

The administration offensive on this issue has not been without effect. In particular, warning about the possible consequences of the amendment on the ability to pay out Social Security, has helped to jar some amendment advocates out of their complacency. But the drumbeat of the balanced budget mania has been so intense, that few legislators dare to buck it.

In a rather byzantine maneuver, Democrat Bob Wise

(W.V.) introduced his own version of a balanced budget amendment, which would be anathema to the more ruthless budget-cutters, but could be supported by those who feel themselves compelled to vote for some form of balanced budget amendment. The Wise proposal would distinguish between a capital budget and an expense budget. While imposing caps on expense budgets, graciously allowing for deficits only in case of war or recession, it would allow government borrowing for physical infrastructure. The Wise amendment might attract some votes away from the Republican version, and thus deprive it of the number of votes needed for passage.

A more interesting variant to the Wise proposal was put forward by the Democratic leader of the House Science Committee, George Brown (Calif.). "It makes no sense to provide our nation with a balanced budget if we do it by killing the programs that create new jobs, rebuild our decaying bridges and roads, and educate the leaders and workers of tomorrow," Brown said. Brown's budget proposal includes specific targets for growth in investments in research and development, physical capital, and ground, air, and water transportation systems. Brown claims that the investments can be paid for by savings in entitlement programs, through adjustments in the Consumer Price Index and by curbing growth in non-investment discretionary programs.

Saved by the collapse?

The House Judiciary Committee was to have voted on the balanced budget amendment on Feb. 11, but the vote was delayed. Judiciary Committee sources say that this was for "scheduling reasons." They have the votes on the committee, sources indicate, but it is by no means clear if they have the votes on the floor. Republican blow-dried airhead Arianna Huffington, writing in the *New York Post* on Feb. 11, warns her colleagues that Democrats may have "trumped the Republicans' hand" by focussing attention on Social Security. Even if it passed by both houses, Huffington says, the implications for Social Security would be trumpeted throughout all the states of the nation as the measure sought the necessary two-thirds votes of the states to finally incorporate it into the Constitution.

With the onset of a major financial collapse, however, the proponents of "budget balancing" will suddenly find themselves either screaming for a federal bail-out of a bankrupt financial system, or looking for an appropriate place to hide from enraged constituents whose pension funds and savings have suddenly disappeared in that wide-ranging pyramid scheme known as the stock market. At that point, having preserved the ability of government to reorganize the economy, keeping that financial collapse from becoming a life-threatening depression, will be viewed as the height of wisdom. But in order to maintain those capabilities, the forces of reason in Congress and the administration must use all the forces at their disposal to defeat what is quite literally a "killer amendment."

Milk price addressed by three new bills

On Feb. 4 and 5, three different pieces of legislation to deal with low milk prices were introduced in the Senate. Two of the bills, sponsored by Herb Kohl (D-Wisc.) and Russ Feingold (D-Wisc.), with companion bills in the House sponsored by David Obey (D-Wisc.), demand increased regulation of the National Cheese Exchange (NCE) and reduction of the effects of NCE actions on average milk prices paid to dairy farmers.

Both Kohl and Feingold, in remarks inserted into the *Congressional Record*, expressed concern that the NCE is too easily manipulated to be allowed an important role in the setting of milk prices. Kohl said the most important thing to do, is "to find a market that will be more reflective of supply and demand and to eliminate any potential for manipulation in price discovery."

Whether or not the recent price decline was "because the National Cheese Exchange is a poor indicator of market conditions or because traders intentionally drove the price down is irrelevant," Feingold said. What is important, he said, is the "perception" that it was manipulated, and that's enough to warrant its retirement. He said the two bills "will go far toward resolving some of the problems that have led to the recent milk price plunge that has cost this country's family farmers so dearly."

The third bill, introduced on Feb. 5 by Sen. Thad Cochran (R-Miss.), assumes that the reason for the milk price collapse is that farmers were overproducing out-of-season. What Cochran proposes is to reinstitute seasonal base plans for milk marketing orders. "This results in more stable production in the fall and winter, when there is an economic disincentive for dairy farmers

to produce milk, and thereby ensures stable milk prices to consumers," he said.

Bumpers: What goes up must come down

Dale Bumpers (D-Ark.) took a swipe at the proponents of the capital gains tax cut, noting the loss of revenue that would result, and he raised the relationship of the tax cut to Wall Street, implying that those tax-cut giveaways would be swept away in a stock market crash. During a speech on the Senate floor on Feb. 4, Bumpers said that the Republican tax-cut proposal would cost \$33 billion over the next five years and \$111 billion over the next ten years in lost revenue, according to the Republicans' own estimates.

"Who do you think gets the majority of the benefit?" he asked. "It is the people who own stock in Microsoft and Intel and IBM. It is the people who are big investors in the stock market."

Bumpers attacked the notion that taxes could be cut and the budget still balanced. "It has never worked, and it never will. . . . If you are going to cut taxes, cut taxes for people who honestly need the money." He added, "If you cut capital gains, with 75% of the benefit going to people who make over \$100,000, where is it going to go? Probably into the stock market. The mutual funds are putting \$15 billion a month into the market right now. Who here believes that the stock market can absorb those kinds of investments? Everything that goes up has to come down at some point or another."

Unfortunately, Bumpers put his remarks in the context of an incorrect assumption that the economy is booming, claiming that the fourth quarter 1996 growth rate was 4.7%.

"You have an economy that is performing absolutely magnificently," he claimed, and, with the Federal deficit coming down the last four years, there is no need for what he called "pandering."

Gephardt gives push to Families First Agenda

House Minority Leader Richard Gephardt (D-Mo.) said on Feb. 7 that the House Democrats "intend to make ourselves as big a nuisance to the Republicans as necessary to win passage" of the Families First Agenda. He said this tactic worked in the last Congress in getting the minimum wage increase and health insurance reform passed, and he expressed confidence that with "willingness to work together on both sides," the Families First agenda can reach President Clinton's desk.

Gephardt accused Republicans of having a "parliamentary view" during the 104th Congress. "They wanted to get all the votes for every measure on their side," he said. He warned that if the Republicans stick to this view in the 105th Congress, "then we'll kind of have a replay of the last two years."

Gephardt made his remarks at a press conference following a House Democratic Caucus retreat that took place the day before at Gallaudet University, to discuss the Democratic agenda for the 105th Congress.

Democratic Caucus Chairman Vic Fazio (D-Calif.) said that the discussions went on for 13 hours, and "we found, despite all the diversity that our caucus is renowned for, that there was a great deal of commonality." He added, "Democrats are increasingly finding it possible to come together on principles and on approaches and on

working with the administration to enact our goals." Fazio concluded that the Democrats "came out of this caucus stronger, more resolute to stand up with our very, very strong minority position to reach out to those moderate Republicans who we think really share our values and really ought to share our politics if they're interested in political survival."

Chafee bill would privatize infrastructure

On Feb. 5, Sen. John Chafee (R-R.I.) introduced a bill to provide for the private financing of infrastructure projects. Chafee acknowledged the huge need for infrastructure investment throughout the United States, but said that the need "comes at a time when we in Congress are desperately looking for ways to reduce spending to balance the budget," hence, the need to bring in private capital to build infrastructure. "To help meet the nation's infrastructure needs, we must take advantage of private sector resources by opening up avenues for the private sector to take the lead in designing, constructing, financing, and operating highway facilities," he said. In order to increase private sector participation, the "tax code's bias against private sector participation must be addressed."

Chafee's bill would set up a pilot program for tax-exempt financing for highway privatization. The number of projects would be limited to 15, and the total amount of financing would be limited to \$25 billion. He said the projects selected must meet certain criteria: they must serve the general public, be on publicly owned rights-of-way, revert to public ownership, and come from a state's 20-year trans-

portation plan. These criteria will "ensure that the projects selected meet a state or locality's broad transportation goals."

What Chafee didn't address is how the bankruptcy of a private highway project, like that which has developed with the Dulles Greenway in northern Virginia, would be avoided.

Thompson investigation budget request attacked

On Feb. 6, the Senate Rules Committee held a hearing on the request of Governmental Affairs Committee Chairman Fred Thompson (R-Tenn.) for \$6.5 million for the committee, to fund an investigation into campaign fundraising during the 1996 Presidential election. Thompson rejected Democrats' calls for a much smaller investigation with a narrowly defined scope, a \$1.8 million budget, and a one-year time limitation on the investigation. Thompson insisted that the full amount he requested is needed, to ensure a "thorough inquiry into issues raised by Democrats as well as Republicans."

The Rules Committee could not complete action on Thompson's request because of Democrats' objections. Senate Majority Leader Trent Lott (R-Miss.) reacted angrily after the hearing, accusing Democrats of having "ambushed" Thompson and of challenging his leadership of the committee.

The next day, Minority Leader Tom Daschle (D-S.D.) denied that Democrats were challenging Thompson's leadership. "We were trying to more clearly specify what he means by the vast scope that he was implying with his original scope proposal. He said anything that falls within the pur-

view of the Government Affairs Committee. Well, that's wide open."

Daschle added, "My concern is that this investigation not go on for years and years and years." Daschle pointed out that Thompson has already said he needs 80 investigators. "If he knows the number of investigators, you'd think he'd also have some sense of how much time it would take. . . . We're not trying to confront him. We have to be able to work it out."

Smith pushes NAFTA free trade on Argentina, Chile

Bob Smith (R-Ore.), the new chairman of the House Agriculture Committee, said at a press conference on Feb. 10 that fast track negotiating authority "ought to be worked out" for both Chile and Argentina to be brought into the North American Free Trade Agreement (NAFTA).

Smith had just returned from a trip to both countries, and was full of praise for their "economic transformations." He said that Chile and Argentina are "both stable" and "growing rapidly," but that there are issues that need to be worked out with both of them before they are admitted to NAFTA. Smith complained that agricultural trade is primarily one way, from those two countries to the United States, to the tune of \$2 billion a year, because of non-tariff barriers erected by both countries against U.S. agricultural products. Smith said, "They ought to allow us into their markets," even though U.S. interest in the Chilean and Argentine markets is small compared to their interest in the U.S. market.

Smith added that the issue of non-tariff barriers should be raised with Chilean President Eduardo Frei when he visits Washington at the end of February.

National News

Court upholds censure of Abrams in Contra affair

The U.S. Court of Appeals for the District of Columbia ruled Feb. 5 that George Bush's pardon did not protect former State Department official Elliott Abrams from being censured by the D.C. Bar Association. Abrams pleaded guilty in 1991 to withholding information from Congress in its Iran-Contra probe, and President Bush pardoned Abrams and others in his "parallel, secret government," just before leaving the White House.

The D.C. Bar Association subsequently suspended Abrams from practicing law for one year. A judiciary panel overturned the action, but the Court of Appeals determined to uphold the disciplinary power of the bar, and settled on censuring Abrams as a penalty.

Senators hear case for technological innovation

A bipartisan Senate caucus met Feb. 11 with representatives from the national laboratories, industry, academia, and the Clinton administration, to consider the impact of projected federal cuts in R&D spending over the next five years. The roundtable discussion was the first public event held by the Senate Science and Technology Caucus, led by Sen. Bill Frist (R-Tenn.), Senate Budget Committee Chairman Pete Domenici (R-N.M.), and Democrats Joseph Lieberman (Conn.) and Jay Rockefeller (W.Va.).

Dr. Mary Good, Undersecretary of Technology in the Department of Commerce, warned that, with an "innovation system unparalleled in the world, global science and technology leadership is ours to lose." Good pointed out that the figure of \$78 billion is commonly cited for federal R&D spending, but that only \$20.2 billion is allocated for non-defense R&D, outside of medical research. That small amount of funds has to be divided among all the other federal R&D programs—including space, energy, basic science, and Earth sciences.

Dr. Alvin Trivelpiece, former head of the Department of Energy's magnetic fusion program, and now director of the Oak Ridge National Laboratory, pointed out that "over one-third of our Gross Domestic Product comes from goods and services that are based on nothing more than our knowledge of the fundamental properties of atoms and their major subatomic parts—electrons, protons, and neutrons." Oak Ridge has been a leader in the development of civilian nuclear technology.

Trivelpiece summarized the argument of Nobel economist Robert Solow, that "technological advances spur greater per-capita production." The reason that the government does not prioritize the budget on that basis is, Trivelpiece asserted, a political problem. He pointed to "inspiration" as a major responsibility of government-funded science programs.

Sweeney rejects Social Security privatization

Speaking to San Francisco's Commonwealth Club Feb. 7, AFL-CIO President John Sweeney blasted the proposal by the majority of the Social Security Advisory Council, to privatize the fund by turning it over to the financial markets. He warned that after privatization, the vast majority of retired people, who don't have "good investment counselors," will end up in "the county poorhouses, which, of course, we closed down shortly after we passed Social Security 60 years ago."

Under the advisory council's plan, Sweeney said, in the first 12 years alone, \$240 billion would be paid to stockbrokers in fees and commissions, on more than \$4 trillion put into the market, while payroll taxes would be raised 26% and benefits cut 30%.

He then savaged the much-touted "Chilean model," put forth by the Heritage Foundation and others:

"It works, doesn't it? Sure it does: the workers pay 20% for old age, disability and survivors insurance and health care, while employers pay nothing. The for-profit businesses which run the program get a 3% administrative fee, their investors earn a 22%

annual profit, and 70% of the workers have less than \$2,500 in their retirement accounts."

Jewish scholar says ADL should no longer exist

Morton E. Teicher, the founding dean of the Wurzweiler School of Social Work of Yeshiva University in Miami, Florida, has issued a scathing attack on the Anti-Defamation League (ADL) of B'nai B'rith. In a recent letter to the *Jewish Journal* of Florida, Teicher declares, "This arrogant organization has outlived its usefulness.

"Thriving on sensationalism," Teicher writes, "the ADL insolently goes its own way, blatantly seeking publicity in order to raise money. . . . The ADL stridently insists that anti-Semitism is flourishing in America so that it can continue to milk dollars from fearful Jews. A former leader of the organization insults our intelligence by asserting that American Jews are at 'Square One' in combatting anti-Semitism, as though no progress were made in the last 40 years.

"ADL brazenly justifies its questionable existence by blowing up minor anti-Semitic incidents. The hollow siren sounded by ADL alerts us to a non-existent American Nazi threat. The National Jewish Community Relations Council, the America Jewish Committee, the American Jewish Congress and local community relations councils amply fulfill a responsible watchdog function. We don't need a shrill, publicity-seeking irresponsible ADL. . . . We need to put the ADL out of business!"

Power companies grab for 'free market' profit

A near orgy of utility mergers is under way, as major companies position themselves to soak up some of the \$200 billion-a-year "income stream" of electricity service billings—hoping to dominate the new "free market" anticipated under deregulation. Nine mergers await approval by the Federal Regulatory Commission.

Enron Inc., based in Houston, with inter-

DEATH SENTENCES have been overturned for 68 U.S. prisoners during the past 25 years, due to serious doubts about their guilt, according to a study by Michael Radelet, sociology chairman at the University of Florida. He said his finding adds to the American Bar Association's recommendation to halt executions, until reforms in the judicial process can be made.

JEAN KENNEDY SMITH, U.S. Ambassador to Ireland, has President Clinton's "unequivocal" support, State Department spokesman Nick Burns declared Feb. 11. Burns denied she would be recalled because of "dissatisfaction with how the peace process has gone. I say that specifically because that was the charge made in a major [British] newspaper. That newspaper is wrong, dead wrong on the facts."

LETHAL DOSES of narcotics have been prescribed by more than half of the San Francisco Bay area's leading AIDS physicians, the *New England Journal of Medicine* claims. Of 118 doctors, anonymously responding to a poll of 228 AIDS specialists in the Community Consortium, 53% reported prescribing a lethal dose of opiates at least once.

JACK KEMP, on NBC-TV's "Meet the Press" Feb. 9, said his appetite is "whetting" to run again for President. He called for a "Hong-kong-like tax code for the District of Columbia," and hailed Newt Gingrich for pushing "fast-track authority for the President to include Central and Latin America in the NAFTA hemispheric free trade zone."

SECURITIES TRANSFER-TAX legislation has been filed in the New Hampshire legislature. Modeled on the Pennsylvania initiative of Rep. Harold James, the New Hampshire measure was introduced at a House Finance Committee hearing Feb. 10 by Rep. Roland Hemon (D-Dover), who also called Schiller Institute spokesman Phil Valenti as an expert witness.

ests tied to ex-President Sir George Bush, is on a national acquisition drive. A merger of Enron Inc. and Portland General (a \$3.2 billion deal) is under consideration in Oregon. Enron is also courting residents of Peterborough, New Hampshire, a town of 5,300, because the village is a pilot project for opening the state's electricity market to "free competition" by 1998. Enron threw a picnic, sent in 30 salespeople, offered a 15% electric rate reduction, and signed up 700 customers designating Enron as "marketer of choice."

The Los Angeles Department of Water and Power, the nation's largest municipal utility, approved a three-year agreement on Feb. 4 to have Duke/Louis Dreyfus manage its wholesale electricity trading and retail marketing. Duke/Louis Dreyfus will receive \$6 million a year, plus a portion of any sales it makes from the Los Angeles water department's power-generating facilities to a customer base of 1.3 million people. The Los Angeles City Council still must approve the deal.

On Feb. 5, Washington State approved the merger of Puget Sound Power and Light Co., and Washington Energy Co., paving the way for the creation of the largest electric and natural gas utility in the Northwest.

Hard winter aggravates threat to beef supply

Severe winter weather is causing huge livestock losses in the High Plains, adding to the devastating effects of low cattle prices imposed by the beef cartel. Hardest hit is South Dakota, where the state's Agriculture Department estimates that at least 100,000 head have been lost out of a total herd of 3.9 million cattle. Serious flooding may add to that during the spring snow melt. The Army Corps of Engineers, projects that water flows in the Jim River will be nine to ten times higher than normal.

But low prices are already ruining ranchers, posing a threat to the national food supply. Montana range calves were bringing the rancher 90¢ per pound in 1995; now they bring 60¢ per pound. Some farmers taking calves to market, find they owe money to the sales barn, after fees, trucking, and other costs are totalled. The low cattle prices have

been imposed by the beef processor trust of IBP (directly interconnected with George Bush's interests), Cargill, National Beef, and ConAgra, which together, control 80-90% of all beef slaughtered in the United States. The cartel is protected by the prevailing national U.S. "market-based" agriculture policy, codified in the 1996 seven-year "Freedom to Farm Act."

Medical journal backs dopers against Clinton

The once-prestigious *New England Journal of Medicine* has endorsed high-roller financier George Soros's campaign to legalize marijuana. A Jan. 30 editorial, entitled "Federal Foolishness and Marijuana" and signed by Dr. Jerome Kassirer, denounces President Clinton and his administration for opposing "medical use" of the drug, despite referendums approved in Arizona and California—with heavy infusions of cash from Soros.

"I believe that a federal policy that prohibits physicians from alleviating suffering by prescribing marijuana for seriously ill patients is misguided, heavy-handed, and inhumane," Kassirer intoned. "Marijuana may have long-term adverse effects and its use may presage serious addictions, but neither long-term side effects nor addiction is a relevant issue in such patients. . . ."

"Whatever their reasons, federal officials are out of step with the public. Dozens of states have passed laws that ease restrictions on the prescribing of marijuana by physicians, and polls consistently show that the public favors the use of marijuana for such purposes. Federal authorities should rescind their prohibition of the medicinal use of marijuana." (Less officious during an interview with ABC's "Nightline," Kassirer snapped that federal officials should "take a hit themselves," i.e., smoke marijuana, and accept legalization as a *fait accompli*.)

Echoing the drug lobby's strategy for full legalization, Kassirer urges physicians to prescribe marijuana in defiance of the law. "Eventually, their actions will force the courts to adjudicate between the rights of those at death's door and the absolute power of bureaucrats."

Editorial

The cuckoo fell from the nest

Early Friday morning, Feb. 7, Ecuador's Congress impeached scandal-ridden President Abdala Bucaram, in a 44-34 vote, on grounds of "mental incapacity," electing the presiding officer of the Congress itself, Fabián Alarcón. Although the Congress's action was taken under the authority of existing law for such cases, the scandal-ridden rock-star, Bucaram, refused to step down, threatening to call upon what he claimed as his "monolithic support" from Ecuador's military.

During the following, crisis-ridden weekend, a conference between representatives of the executive and the Congress, reached an agreement which preserves constitutionality. The law passed by the Congress, impeaching Bucaram, was upheld. The forty-year-old Vice-President, Rosalía Arteaga, assumed the duties of the presidency, temporarily, until the Congress completed fully the process of formal election of the President to replace the ousted Bucaram. Since then, on Feb. 11, the Congress voted up Fabián Alarcón's election as President by a vote of 57-2.

Thus far, public signs of tea and sympathy for the unfortunate Mr. Bucaram, are limited chiefly to the Washington and Argentina press outlets of George Bush's Moon-cult sponsors, and to Bush's and Henry A. Kissinger's crony, Argentina's eccentric President Menem.

It will not end there. A week of after-action coverage of Mr. Bucaram's departure in the relevant leading daily press of Washington, D.C., New York City, and London, can be summed up fairly in a single word: *stunned*. As that momentary numbness among the editors wears off, the glint in the eye of those media will follow the lead of the Moon-cult press: very nasty.

There are reasons for that stunned reaction. What happened in Ecuador is not simply an internal affair of Ecuador, nor of South and Central America; the fall of the cuckoo from its Ecuador nest, signals an ongoing, world-wide, chain-reaction collapse of the International Monetary Fund's current policy.

It is always important to get the whole story, especially the parts which are suppressed by the reports in the leading news-media. Abdala Bucaram, like England's King Richard III, had a terrible personality, but that is not the reason either was ousted from his throne. Read

the rest of the law which Ecuador's Congress enacted on the day it impeached Bucaram.

The impeachment was the outcome of the same kind of political mass-strike wave which has rocked France, Belgium, Greece, Serbia, South Korea, Bulgaria, Albania, and a growing number of other nations, around the world, since the second half of 1996. It occurred in the midst of Ecuador's nationwide political mass-strike, in which between 1 and 2 millions of the nation's 12 million population participated, beginning Wednesday, Feb. 5, continuing into Friday, when the impeachment of Bucaram occurred. As part of the same series of legislative actions, the Congress nullified a series of "IMF conditionalities" which Bucaram had imposed by Presidential decree. The fascist-like austerity measures featured in Bucaram's decree, included the usual forced doses of "castor oil" against the poor: in addition to wild-eyed mayhem against the economy, in the name of "privatization," shocking increases in areas such as rates for public transportation, electricity, telephone service, cooking gas, and fuel for homes and vehicles.

The international implications are implied in a pair of quotable utterances, taken from the pages of both the *Washington Post* and the Moon-cult's *Washington Times* outlet. "Ecuador's Congress has opened a Pandora's box," says the *Times*'s Kissinger-linked Roger Fontaine, adding the threat, that no matter what the outcome, the country's democratic institutions "are now too fragile to survive." The *Post* explains Fontaine's ranting: "Ecuador now lacks . . . the constituency to support necessary further major privatizations." It may be the case, says the *Post*, that the resolution of the crisis "bowed to constitutionality, but [it] does not address the sacrifice and discipline that the country's economic crisis mandates."

The onrushing world-wide financial collapse impels the crazed monetarist desperadoes of the financial centers to force governments to impose ever-more-savage measures of austerity. This combination has prompted a booming wave of political mass-strikes, against the governments which bend to the financiers' will. What stunned the relevant editors about the cuckoo's fall from the nest, is, that it shows, that the days are numbered, when Gingrichism and even the mere pretense of "democracy" can still dwell in the same house.

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3 p.m., 11 p.m., 7 a.m.

- ST. PAUL—Ch. 33; Mon.—8 p.m.
- ST. PAUL (NE Suburbs)
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MISSOURI

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- RENO/SPARKS
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NEW JERSEY

- STATEWIDE—CTN; Sat.—4 a.m.

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TCI—Ch. 1 or Ch. 99
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Wednesdays—2 p.m.
- WOODBRIDGE—Ch. 3
Saturdays—6 p.m.
- YORKTOWN—Conti Ch. 38
Mondays—4 p.m.

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