Facade of 'stability' broken in Russia

by EIR Staff

Two years ago, on Oct. 30, 1992, pre-publication copies of the Russian edition of Lyndon LaRouche's textbook, *So, You Wish to Learn All About Economics?* were presented in Moscow at a conference of the Schiller Institute. In a foreword for the Russian edition, LaRouche talked about the collapse of "the greatest financial bubble in history," which collapse "could become the worst economic disaster in European history since either the early 17th century, or even the mid-14th century's 'new dark age.' " He warned, "From the experience of this ongoing great collapse, the nations which survive learn two leading rules for shaping of their economic policy. First, it must be recognized that economy is essentially physical economy, and that *never again must money be elevated to any higher political authority than merely a means of fostering the production and physical distribution of tangible objects of newly produced wealth*. Second, economic policy must be premised upon the fact, that the continued existence of humanity depends absolutely upon the continuation, indefinitely, of those improvements in knowledge, and in capital-intensive, energy-intensive modes of investment in productive techniques which we associate in an exemplary way with generalized scientific and technological progress."

Russia is now suffering the terrible consequences of its regime's following the dictates of *monetarism*, imported from the West. In the State Duma and in the Russian press, there are more and more demands to find another path, but no political force inside the country has intervened with the authority to find one before the political and social landscape explodes.

On Oct. 11, the Russian ruble fell by 25% against the dollar for a cumulative 50% drop in the space of two months. After massive ruble purchases by Russia's Central Bank, it rebounded from 3,926 rubles to the dollar to the vicinity of 3,000. The crisis tore up the myth of "stabilization" which the Yeltsin regime has offered to the world and to international financial institutions.

President Boris Yeltsin fired acting Finance Minister Sergei Dubinin immediately, and Central Bank head Viktor Gerashchenko resigned several days later. The fate of Prime Minister Viktor Chernomyrdin and his entire government is uncertain, amid swirling rumors of his resignation and a no-confidence vote by the State Duma on Oct. 27, which the government squeaked through almost intact. Vitali Tretyakov, editor-in-chief of the influential daily *Nezavisimaya Gazeta,* editorialized that Chernomyrdin's departure is "a matter of time."

On Oct. 27, all the ministers of the government, with the exception of Agriculture Minister Viktor Khlystun, survived the vote of confidence, but 100 Duma representatives walked out in protest when the question regarding Defense Minister Pavel Grachov was raised.

The issues behind this demonstration were detailed in an open letter by one Sergei Lyuzhkov, a colonel from the Russian Army General Staff's press department, run on Oct. 22 in *Nezavisimaya*. The letter said that time was running out for the military's support for Yeltsin and his defense minister, General Grachov. Matters in the Armed Forces had worsened beyond toleration: the housing and social situation, lack of appropriate equipment, corruption, humiliation of the soldiers, and deepening demoralization. Lyuzhkov warned that the Army would not come to the defense of Yeltsin a second time, as it did in October 1993 when the Supreme Soviet, Russia's previous parliament, was crushed by force.

The ruble crisis

The ruble crisis built for several weeks before Black Tuesday, Oct. 11. When the MMM firm, a self-styled investment fund which was the largest of Russia's private speculation scams, folded in July, scores of other such funds and the *nouveaux riches* speculators who run them turned to currency speculation and downward manipulation of the ruble as one means to make quick financial gains before repeats of the MMM collapse. As the ruble slid from the 2,000 to the dollar range to 3,000, a rate that in July or August would have been considered catastrophic, the regime did nothing. Then on the evening of Oct. 11, leaks from an emergency meeting of Russia's Central Bank asserted that "10 banks had colluded to dump rubles on the market." First Vice Premier Shokhin said it was the result of a plot, and a committee headed by state security officials was assigned to find the cause of the crisis.

The Russian government could have slyly welcomed the depreciation of the ruble, since it cheapened the several-months arrears of wages owed by the state to employees in industry and administration. But after the rescue interventions of Oct. 12 and following days, a large portion of Russia's currency reserves are gone. The Central Bank has just $1.8 billion on hand for currency intervention purposes, according to *Nezavisimaya Gazeta* of Oct. 15, whereas Russian reserves stood at $9 billion during the summer.

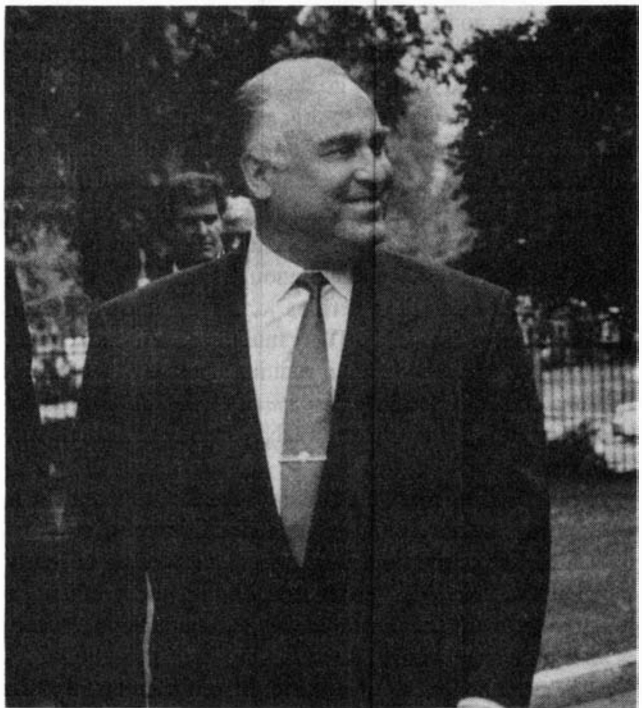
With the collapse of the currency, inflation soared again. Prices for basic foods such as bread and milk shot up by 15% just on Black Tuesday, but unlike the ruble rate did not reverse direction. This shock hit a population, where most people have not received their wages for many months, and close to half were at or below the subsistence level before October.

Several major industrial plants have been struck over the unpaid wages, but they were paralyzed already by a non-payments crisis among firms and the breakdown of supply. Production in industry as a whole is declining at an annual rate of 10-20%, reports former Russian Prime Minister Ivan Silayev, who is currently involved in creating a Union of Machine Builders, but in the machine-building industry the fall is at an annual rate of 40-45%.

Bread shortages, a sure condition for social turmoil, could loom early next year. In early summer, the Ministry of Agriculture revised its estimate of the grain harvest from 99 million tons to 90 million tons. By Oct. 13, according to Interfax, 89% of the fields were harvested and ministry officials said that only 77.6 million tons had been threshed, compared to 91.2 million at the same time last year. Leonid Cheshinsky, head of Russian Bread Production contracting corporation, said that the wheat harvest might be only 31-32 million tons, against 43 million tons in 1993, leading to shortages for the baking industry by the first half of 1995.

An invitation to disaster

The posture of the International Monetary Fund (IMF) and the World Bank toward Russia is to demand further strangulation of industry and agriculture in the name of monetary "stabilization."



Russian Prime Minister Viktor Chernomyrdin during a visit to Washington last June. He barely survived the Oct. 27 confidence vote.

At the Oct. 2-4 IMF annual meeting in Madrid, otherwise described as a conclave of desperate bankrupts who saw handwriting on the wall but couldn't read it, IMF officials told the Russians to cut more than 100 trillion rubles from the state budget or expect no IMF credits. An IMF delegation visiting Moscow the very week of Black Tuesday dangled the prize of a $4.1 billion stand-by loan and the creation of a "ruble stabilization fund" perhaps by next spring, contingent on new austerity measures. Russian government representatives learned that, having scrunched inflation down to 5% per month during the summer (including by simply not paying wages!), they should slash spending more, to achieve a monthly inflation rate of 1%.

John Odlington, head of the IMF's Russia department, was quoted in the *Financial Times* of London Oct. 17: "This is not the time to take the easy line and to give way to pressure from industries," while IMF chief economist Michael Mussa declared, "Until a cap is put on spending, there is no hope of containing the budgetary situation. That needs to be demonstrated by the government."

The culprit in the ruble's collapse and renewed inflation, in the opinion of a specialist closely involved with IMF policy toward Russia, was the Central Bank's continued issuance of credits for the farm sector and Russia's far north. Asked if Russia should extend credit to stabilize industry, he protested, "No! They have to stop doing that. That is the problem.

They are not going to be doing that any more. They have been giving credit to industry, and that prevents the restructuring. Let the old industry go."

At Madrid, according to this gentleman, "the Russians thought they would get credits on the basis of their current policies. They thought that, because they had gotten inflation down to 5% a month, they would get credit. But the Russians are going to have to get used to the belief that the West doesn't think they have done enough. . . . The time has come for Russia to do a serious job. They must carry out stabilization [of the ruble]. There must be a correction. Right now, Russia's budget deficit is running at about 10% of GNP; that must be gotten to less than 5% of GNP." At the current exchange rate, 5% of Russia's GNP, or 129 trillion rubles, is $43 billion.

Struggling to meet these demands, the government is committing suicide. On Oct. 20, Chernomyrdin presided over a closed cabinet meeting, which adopted an austerity budget draft for 1995. After the session, the premier attempted to instill public confidence by announcing, "There is absolutely no reason to panic."

The draft budget slashes spending on agriculture and industry, with particularly severe cuts in the coal sector—as specially demanded by the World Bank—although miners are already threatening to strike.

In a recent memorandum to the Russian government, the World Bank recommended that Russian coal production be cut by almost 50%. As a condition for a $1.5 billion loan, Russia should close 40 mining complexes with a combined output of 140 million tons of coal per year. Russian coal production is 300 million tons per year now. The World Bank would like to see complete liquidation of the state coal agency Rosugol and privatization of the coal sector.

Backlash

Workers in the energy and transportation sectors held nationwide street demonstrations Oct. 27, to protest the government's austerity and non-investment policies. In Moscow, some demonstrators carried signs reading: "Boris Yeltsin, the people no longer trust you." In St. Petersburg, the demonstration filled up the main square.

There is a backlash against them in political circles as well, and growing rage against the West for foisting such policies on Russia. On Oct. 8, the daily *Sovetskaya Rossiya* published a table on Russian exports under the headline "Who Devours Russian Natural Resources?" The Oct. 11 issue of *Rabochaya Tribuna* ran an article on the coal industry titled "The West's Financial Moguls Sentence Every Other Russian Coal Miner to Unemployment."

In *Rabochaya Tribuna* of Sept. 20, economist Dr. Vilen Perlamutrov of the Russian Academy of Sciences Institute of Market Problems asked if current policy were not leading to a replay of the draconian "war communism" of the early Soviet period. Because companies like MMM were encouraged, wrote Perlamutrov, "money has switched from production to the 'buy and sell' organizations because they offer the fastest turnover of capital and, consequently, decent profits. Meanwhile, the impecuniousness of the producers means that production volumes in the country are falling. As for our teachers and benefactors in the West, they promised us all sorts of things (first $24 billion, then $4 billion), but in the end gave nothing and are not going to."

In September, opposition figures Yuri Skokov, the former secretary of the Security Council, and Sergei Glazyev, head of the economics committee in the State Duma, presented to the 3rd Congress of Russian Producers a working document on the causes of Russia's economic crisis and ways out of it. Their outline is incompatible with a continuation of the IMF course.

Writing before the ruble crisis exploded, Skokov and Glazyev argued that official statistics showing a halt in the decline in production, inflation at 5% per month in July and August, and a 10-12% increase of real incomes during 1994, not only do not signify stabilization, but "mask the onset of a new phase of the crisis." They said that true "stabilization" would require areas of growth in the processing sectors of industry, a rise in investments, and a growth of monetary incomes in the goods-producing sectors, whereas Russia was experiencing a "structural depression" rather than any of these.

Glazyev and Skokov identified the "irretrievable loss of the economy's remaining technological positions and the capacity to create them" as the most dangerous process, noting that "the output of high-technology and science-intensive products is falling at a faster rate than anything else, in virtually all sectors."

Attempting to define "directions for a way out of the crisis," the Glazyev document set goals that would require breaking with the murderous monetarist practices of the IMF: maintaining production at the critical level necessary for reconstruction, renovation, and technological modernization (50-60% capacity utilization); defense of the domestic market from competing imports, above all in machine building; formation of domestic financial resources in production, sufficient for its renovation; defense and utilization of the investment and scientific-technological potentials; creation of institutional investors, above all large corporations, able effectively to mobilize economic resources.

On the eve of the Oct. 27 vote of confidence, Glazyev called a news conference where he blasted Russia's 1995 draft budget. "They call the budget tough. I say it is irresponsible and short on ideas," Glazyev charged. "Russia agrees to a 10% industry slump and lower investment activity."

"And even then, the budget has a deficit," Glazyev added. He said plans to cover the deficit by issuing state securities reminded him of a pyramid scheme, like the notorious MMM investment scheme: "I do not envy a government which has to repay those issues in 1996."