

IMF admits that it is exacting a 'brutal' toll from Russia

by Rachel Douglas

As International Monetary Fund Director Michel Camdessus prepared for his latest trip to Moscow, taking place the week of Feb. 19, the deputy chairman of Russia's Central Bank invited him to speak on Russian national television "as a publicist for financial stabilization." It was a sign of the Russian regime's desperation—if not loss of touch with reality—in its attempt both to secure the IMF's latest promise, a \$9 billion three-year standby loan Camdessus is supposed to finalize, and to dodge the political consequences of the IMF-sponsored demolition of the Russian economy.

An unnamed IMF official, quoted by the BBC on Feb. 4, pronounced the Russian government's "anti-inflation" measures of 1995 "brutal but effective." They were also remarkably simple: The Russian government stopped paying wages on time to significant categories of workers employed in State-sector jobs! Withholding wages avoided the necessity to print more money, thus curbing inflation to "only" 200% for the year.

This "anti-inflation" success and the related presentation by the Chernomyrdin government of an alleged "balanced budget" for 1996, comprise the Russian financial "stabilization" demanded by the IMF.

The wage arrears for 1995 totalled 13.4 trillion rubles (\$2.5 billion), according to a Jan. 30 report in *Izvestia*; 30% of the backlog is two months or more overdue. Affected are employees in industry, construction, transportation, and agriculture, including many fully or partially privatized branches of industry; only the coal miners, State-sector agriculture workers and employees of scientific, administrative, and military institutions remain totally on the State payroll.

In one instance of the wage crisis in the privatized sector, Russian newspapers reported in late January on a conflict at the giant Norilsk Nickel concern, which produces over 90% of Russia's platinum group metals (40% of world production), cobalt and nickel (each nearly 10% of world production), and 50% of the copper. Wages for the several hundred thousand workers there, who live above the Arctic Circle, have not been paid since November. The largest shareholder in the privatized firm is Onexsimbank, one of Russia's new megabanks, which obtained the shares in a large equity-for-credits

deal. Bank management maintains that Norilsk Nickel's priority should be not wages, but payment of \$100 million due on loans issued by Onexsimbank. Norilsk Nickel has been listed not only by the Communist Party, but by such prominent power brokers as Moscow's Mayor Yuri Luzhkov, as a candidate for renationalization. On Feb. 5, Chief Prosecutor Yuri Skuratov launched an investigation of criminality in the privatization of several major firms, including Norilsk Nickel.

Public sector promises

On Dec. 29, Minister of Social Protection Lyudmila Bezelepina acknowledged in *Rossiiskaya Gazeta*, that 37 million people (nearly one-quarter of the Russian population) are not receiving their pensions on time.

Labor unrest has flared in the coal industry and on the railroads. In late December, over 1,000 people blocked traffic on the Moscow-Gomel railway in Bryansk Province. "Hunger prodded them to this step of desperation," reported *Rabochaya Tribuna*. In late January, miners from Vorkuta in the far north picketed government buildings in Moscow, to protest the non-payment of wages since October 1995.

On Feb. 1, as coal miners threatened a broader strike over wage arrears, President Boris Yeltsin issued a decree on the prompt payment of salaries to public sector workers, requiring Prime Minister Viktor Chernomyrdin to report to him at least every other week on progress in these payments and to identify officials responsible for delays. A few days earlier, Yeltsin promised to create a special Presidential social fund, with enough money in it to pay a month's wages for everyone in Russia. He did not reveal where the money might come from.

Izvestia asserted that the Ministry of Finances was paying back wages to coal miners in January, by taking funds earmarked for the regions, meaning that teachers and doctors in the regions would suffer, in turn. Russian teachers threatened a strike in late January, again to demand the payment of overdue wages.

According to Central Bank Deputy Chairman Sergei Aleksashenko, the would-be TV host for Camdessus, the IMF had nothing to worry about, in Yeltsin's wage increase and

other promises: "These are election slogans and not real policies." But one hard-core "free market" radical, who advised the Russian government down its course to Thatcher- and Bush-prescribed disaster in 1992, is not so sure. Writing in the *New York Times* of Feb. 13, Swedish ideologue Anders Åslund lamented that Yeltsin had "abandoned everything that the West appreciated in him," and "given in to the Communists on virtually all fronts." In particular, Åslund deplored the ouster of Anatoli Chubais as deputy premier in charge of privatization, and Deputy Premier Oleg Soskovets's advocacy of "large-scale subsidies for the biggest enterprises."

1995: 'the year of collapse'

The first summary reports on what happened to the Russian economy in 1995 appeared in January. They illustrate the criminal insanity of the free-marketeers' assault on Russia's productive industry—hailed as "successful reforms" by too many governments in the West. They confirm *EIR*'s diagnosis, published last year ("Collapse of Russia's Economy Reaches Point of No Return," *EIR*, March 17, 1995), that Russia was experiencing a series of economic "shocks," each one sharper than the last. They show the basis of the dramatic social and political consequences of the economic collapse, discussed in the two guest commentaries by Russian analysts, accompanying this article.

Findings by the analytical information agency FinIst were published in *Pravda-5* on Jan. 26, which dubbed 1995 "the year of collapse."

FinIst reported the decline of production on the national level as only 3 or 4% for the year, as against 21% in 1994. But the sectors that are decisive for healthy economic growth continued to plunge at a faster rate: between 10 and 45% for different branches of machine building; between 15 and 30% in the science-intensive defense industry; between 15 and 30% in consumer goods production.

The collapse of consumer durables production, which *EIR* presented last year, continued. The output of some such products, expressed as a percentage of 1990 production:

	1993	1994	1995
Refrigerators	92%	70%	47%
Washing machines	72%	39%	25%
Tape recorders	64%	21%	10%

This collapse in production was reflected in the dynamic of Russia's foreign trade. The share of domestic production in the domestic market, for all goods purchases, was 79% in 1990, 51% in 1994, and only 46% in 1995. Russia's exports were valued at \$78 billion in 1995, of which 48% was fuel products and 32% other raw materials. Out of \$58 billion total imports, 33% was food and 40% other consumer goods.

In the branches of industry associated with high skills level, productivity increases, and future growth, the 1995 pro-

TABLE 1

Collapse of Russian basic industry, 1990-95

	1994	1995	1995-94 (Percent change)	1995-90
Electricity (billion kilowatt-hours)	862	876	98%	78%
Oil (million tons)	307	316	97%	58%
Natural gas (billion m ³)	595	607	98%	92%
Coal (million tons)	262	272	97%	67%
Ferrous metals (million tons)				
Iron	39	36	107%	66%
Steel	51	49	104%	57%
Metal-cutting machine tools (thousands)	16.5	18.2	90%	23%
Stamping presses (thousands)	2.08	3.1	68%	7%
Trucks (thousands)	113	142	80%	39%
Tractors (thousands)	21	28.7	75%	10%
Combines (thousands)	6.4	12	53%	6.7%
Chemical industry (million tons)				
Sulphuric acid	6.9	6.3	110%	54%
Synthetic fabric	0.23	0.19	116%	66%
Gasoline	28	26.4	106%	68%
Diesel/fuel oil	66	70	94%	66%

duction levels in Russia, compared with 1990, reveal near total destruction:

- Numerically controlled machine tools 4%
- Prèsses 8%
- High-grade rolled metal 15%

In other areas of basic industry, the smaller decline or slight rise of 1995 production over 1994 has to be seen against the backdrop of the previous three years' collapse. **Table 1** shows 1995 production, expressed as a percentage first of 1994 production, and then of 1990 production.

The more than 90% destruction of agricultural implements production rippled as a shock wave through Russian agriculture production in 1995. As for chemical fertilizers, they streamed abroad. *Agra-Europe* reported Jan. 2, that the input of fertilizers in domestic agriculture came almost to a standstill in Russia last year, while between January and October, Russia exported 12.72 million tons of fertilizers (2 million tons, or 18.5%, more than in the same period of 1994). Almost all the exports were to the so-called "far abroad," the western industrial countries.

With inputs slashed, agricultural production plunged in 1995. **Table 2** shows the summary by FinIst.

Thus, the main developments in the Russian economy during 1995, in the FinIst report, were the consolidation of a split economy: 1) the raw materials and primary processing

TABLE 2

Collapse of Russian agricultural production, 1990-95

	1995	1994	1995-94 (Percent change)	1995-90 (Percent change)
Grain (harvest, million tons)	64.7	81	80%	60%
Potatoes (harvest, million tons)	37.7	34	110%	94%
Livestock (millions of head)				
Cattle	39.2 ¹	44	89%	81%
Hogs	22.6 ²	25	89%	75%
Sheep and goats	28.4 ³	36	78%	62%
Milk production (million tons)	5.8	7.2	80%	32%
Meat production (million tons)	2.3	3.2	71%	28%

1. Or 29 (from non-government studies).

2. Or 13 (from non-government studies).

3. Or 18 (from non-government studies).

complex, oriented to the West, and 2) the collapsing industries that previously consumed domestic production within the country. The domestic system of research and development was "liquidated." And, food self-sufficiency was demolished.

For the first time last year, the services component of the (already notoriously fraudulent) category Gross Domestic Product in Russia, exceeded the goods portion. Services reached 53.3% of GDP (49.9% in 1994, 43.3% in 1993). The fastest so-called growth rates occurred in "market services": finance and credit, insurance, foreign exchange and stock operations, which now are estimated to comprise between 33 and 38% of Gross Domestic "Product," although they are really no product at all!

The criminalization of Russia's economy

by Tatyana Koryagina

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The growth of economic crime in Russia in the 1990s has confirmed the worst forecasts of specialists. In 1988, this

author had occasion to speak at an expanded session of the U.S.S.R. Council of Ministers, on the problem of the development of cooperatives. We stated there, that our scientific research data showed the beginning of large-scale mafia penetration of the cooperative structures and the laundering of "dirty" money through them.

Since that time, our initial work on the shadow economy in the cooperative movement has been supplemented by data on the criminalization of the private sector of the economy, mixed-ownership companies, and State enterprises. The past two to three years have seen an especially intensive fusion of economic crime with hard-core criminal activity. The vertical and horizontal ties of the organized criminal structures were strengthened. Their contacts with the international mafia were broadened, especially in the areas of narco-business, the weapons trade, the trade in living wares, including the sale of human organs on the international market.

Criminalization is taking place in practically all spheres and sectors of the economy, with a marked tendency to more overtly criminal economic activity. This is the most dangerous feature, characterizing the shadow economy in Russia today.

In quantitative terms, our data at the end of 1995 show that the volume of the shadow economy had reached approximately 750 trillion rubles, or nearly 45% of Russia's Gross Domestic Product. Out of the indicated huge shadow "gross product," up to half of its volume can be strictly linked with the activity of organized crime. Tens and hundreds of trillions of rubles or tens of billions of dollars are "earned" in the areas of production, sale, and consumption of narcotics, and production and sale of arms, which breed violence, terrorism, immorality, and callousness in society. . . .

In this connection we note a very important, extremely negative tendency of the most recent period: the absence of possibilities to earn income by legal means. The legal and social defenselessness of people, under conditions of a total shutdown of Russian enterprises, pushes many people into the arms of the mafia, converting millions of workers into a contingent of shadow economy employees. Thus, the shadow economy has been converted into the basic reservoir, which extends the borders of the labor market in Russia.

According to our expert estimates at the end of 1995, approximately 59 million people had come into contact with the shadow economy as workers. This number includes simple hired workers, as well as owners of private enterprises, managers who work at enterprises of all forms of ownership, and functionaries from the administrative apparatus at all levels, law enforcement employees, and so forth. As is known, the giving and taking of bribes by Russian officials has even been theoretically justified by government and political figures, for example, former Mayor of Moscow Gavrill Popov.

But we must once again stress, that the phenomenon of