

# Soviet Union's 'reformed' economy is racked by acute collapse

by Rachel Douglas

Very little of what transpired at a July 18 special meeting of Communist Party regional leaders from throughout the Soviet Union, addressed by General Secretary Mikhail Gorbachov, has made it into the press or, evidently, into policy deliberation in the West. Yet *Pravda's* report on the meeting, published July 21, provides crucial intelligence on the acute illness of the Soviet economy, which is at the center of political leadership fights and military decisions in the U.S.S.R.

His fellow members of the Politburo, the party's highest executive body, attacked landmark economic reform measures of Gorbachov's tenure, as nothing short of disastrous. The fabrications of U.S. intelligence analysts, about how Gorbachov is either enough in control of events that he can exploit the labor crisis successfully to strengthen his peace-loving policies, or will be able to do so if only Western governments support his economic reforms, cannot stand, in the face of what Yegor Ligachov and Vitali Vorotnikov had to say July 18.

They both described dysfunctions of the Soviet economy, the inevitability of which was identified in *EIR's Global Showdown* special reports of 1985 and 1987. Gorbachov's economic restructuring (*perestroika*), was based on the requirements of a military-strategic build-up, known as the Andropov-Ogarkov War Plan (see box).

## A risky venture

Except in the unlikely event that the Soviet leadership could solve two chronic, deep-rooted economic problems, the low productivity of Soviet agriculture and the inability of Soviet industry to assimilate the front-line achievements of Soviet science, we said, the Andropov-Ogarkov Plan would bring the looting of the Soviet Union's own civilian economy and those of its Eastern European satellites to the point of exhaustion. Political explosions would result.

*EIR* founder Lyndon H. LaRouche, Jr. commented late last year, "In July 1985, I forecast that if Moscow continued to follow the mobilization policy then in progress, which I identified by the label 'Plan A,' the Soviet economy would reach the threshold of a worsening physical-economic crisis

about 1988-89. . . . In the Soviet lexicon, the relevant term is 'primitive accumulation,' a term which . . . references the looting of previously accumulated physical capital as a source of wealth for capital formation, or, for military mobilization. 'Primitive accumulation' draws stored-up, previously invested physical wealth from land, basic economic infrastructure, human bodies, and even sectors of manufacturing. . . . So, during the recent five years, Moscow has intensified savagely its looting of the captive nations of Eastern Europe, has cut back on essential projects in Soviet basic economic infrastructure, has depressed the physical income and conditions of life of most of the Soviet population, and has even allowed its vital Soviet machine-tool industry to fall out of repair. All for the past five years' mad drive for absolute strategic military superiority over the West."

Under these circumstances, LaRouche said, the prospect grows by the day, for a Soviet "military adventure," or chain of them.

## Military comes first

At the July 18 session, Central Committee Secretary and Politburo member Ligachov said, "It is impossible to sustain such great military expenditure while simultaneously implementing radical restructuring of the economy and resolving cardinal social problems." In 1985, he reported, "military output accounted for almost 40% of production at defense plants and in the machine-building complex. In my opinion, in this situation a restructuring of the economy attaining world levels of quality and the solution of priority social tasks within a short period are simply impossible."

Though he urged that defense factories produce more machines for food-processing, Ligachov was quick to say what the priority remains: "I would like to stress with the utmost clarity, that our duty is to take care of our glorious Army, provide it with good-quality weapons, improve its material and living conditions, strengthen the army's prestige in society . . . and, without fail, protect it from all kind of attacks."

At the conference, Ligachov and other party officials

raised the question of political power in the Soviet Union. Their every reference to the party's "lagging behind" events, or "losing control," implies the threat of taking matters back in hand by force. Attacking the spread of "opposition political organizations," Ligachov said that affairs have gone so far, that "in some places dual power is developing." The use of the term "dual power" is a harsh warning; in Russian history, it refers to the period between the February and the October revolutions of 1917, when the Bolsheviks were not yet fully in power.

The Moscow weekly *New Times*, in its July 18-24 issue, raised the specter of massive repressions, by warning that the Soviet Union was not "immune against massive popular unrest," such as happened in China.

### **Law on State Enterprise fails**

Regional party leaders like Yu. A. Manayenko of Lipetsk Oblast stated, according to *Pravda's* summary of the July 18 meeting, that "definite changes must be made in the Law on the State Enterprise," the reform measure that enhanced the say-so of Soviet company managers over the sale of their products and investment of earnings.

Vitali Vorotnikov, Politburo member and President of the Russian Republic (RSFSR), described its failure: "We thought it was a very good law. Labor collective councils, elections of leaders, the contract system of relations—all this is wonderful. . . . In reality, a great deal turned out . . . very differently from the way we had expected. Many enterprises found loopholes; . . . they began to arbitrarily reallocate funds . . . to extra wages right away. And the increase in wages was often double the increase in output."

Thus, in the face of growing popular unrest over income and the living standard, state-owned enterprises used their new-found "autonomy" to increase wages. But there was less and less available to buy with the wages!

The inducements were for enterprises to operate through contracts among themselves, instead of counting on centrally planned provisions of raw materials and semi-manufactured goods. In the face of unreliable partners and a transport system that fails to deliver the goods, Vorotnikov reported, companies are now pleading for state purchase orders and the attending guarantees of supplies. They resort to barter: "They bargain: You give us some metal, we will give you some meat, you give us some meat, we will give you some timber, and so forth."

Party leader A.S. Myakota of Poltava Oblast in Ukraine reported on the conditions that invite such primitive barter arrangements. One automobile plant in Poltava was short 600 complete cars and 20,000 motors of its production target this year, because electric cable did not arrive from Armenia. Nearly 70,000 tons of iron ore concentrate are sitting at an enriching plant, for lack of 1,200 freight cars to ship it out. One million tons of grain are lying on the threshing floor in the oblast, because of "an acute shortage of spare parts and

fuel" for the trucks to move it.

Myakota's example shows that the collapse has spread beyond the food and consumer goods sectors, to infect the industrial production and infrastructure on which the military also depends.

Even before July's coal strikes, Soviet energy supplies were in disarray. A Ministry of Railways meeting in early July discussed "the state of affairs regarding the fulfillment of assignments for prompt shipment of fuel and other national economic cargo, [which] was rated as critical." The early June explosion on the main liquified natural gas pipeline from Siberia to the central regions of the U.S.S.R. cut LNG deliveries by 20%, according to *Izvestia* of July 8, which idled many petrochemicals plants and cut off thousands of apartments from fuel.

The two weeks of coal strikes in Siberia and Ukraine cost dearly. During the strike, Prime Minister Nikolai Ryzhkov said, steel plants and electric power stations "were on the brink of coming to a standstill" for lack of coal. The daily *Sotsialisticheskaya Industriya* reported that in the Donets Basin (Donbass), Ukraine, over one million tons of coal was not mined, thanks to the strike. Many mines were irreparably damaged, by self-ignition or cave-ins during the period of inactivity. (In the Donbass, the older coal producing area, the mines were old and in bad condition to start with—eight times as deep, on average, as the average U.S. coal mine, and filled with dangerous levels of methane.)

### **Economic clash of republics**

Vorotnikov also lashed out against the latest political and economic reform measure, endorsed by Gorbachov and approved by the Supreme Soviet (the Soviet version of parliament), namely the granting of "financial autonomy" or "territorial economic accountability" to various regions of the country. This is being tested in the Baltic littoral states of Estonia, Latvia, and Lithuania; but "financial autonomy for the Kuzbass" was also a chief demand of Siberia's striking miners.

If the republics on the perimeter get such "autonomy," Vorotnikov threatened, the RSFSR may demand it as well. The impact on the Soviet economy of such a political step by the Russian Republic would be enormous.

The RSFSR, as Vorotnikov pointed out, is the source of raw materials for the other republics, and RSFSR enterprises must charge low, state-subsidized prices. But what if that changes? "How will this economic accountability look when we revise prices for oil, gas, coal, metal, yarn, textiles, and so forth?"—an implied threat to charge the Baltic republics and others prices they can't afford, very soon.

A week later, at the Supreme Soviet debate on the economic autonomy bill for the Baltic republics, Vorotnikov restated the threat for all the country to hear on television. He and State Planning Commission (Gosplan) chief Yuri Maslyukov voted against the legislation.

Acknowledging that the autonomy bill might help stabilize the political situation in the Baltic region, Vorotnikov said it was nonetheless flawed: "Looking deeper into the text of the draft, . . . we find ourselves automatically working out how these provisions would apply to us. . . . I think [economist] Comrade Bunich and other experts will realize how complex this process is for the RSFSR, if for Estonia, Latvia and Lithuania it is having such a painful birth."

Vorotnikov questioned how "union," (i.e., state-owned at the national level) facilities within the republics could be placed under republic-level "autonomous" control. If the RSFSR did likewise, major industrial and infrastructure facilities would become Russia's alone:

"There are no grounds for the proposals on handing over—free of charge, as is stated in the draft—to the jurisdiction of the peoples of the republics, of union enterprises and economic organizations with all fixed and working capital. I understand . . . how difficult it is to determine the extent of the participation and the dependence of the republics, who owes whom more, who should be paid more, and from whom is it necessary to levy, you understand, some dues for the state budget: This is difficult, but it is necessary to do this, if we want to create equal conditions, equivalent exchanges, and so on. Our learned economists probably need to work on this a little. But what bases are there for simply handing over, free of charge, everything which is situated on the territory of the republic? After all, the Russian Federation, let us suppose, could proclaim the BAM [Baikal-Amur Mainline, the second trans-siberian railway—RD] or the Magnitogorsk Metallurgical Works as its property with equal success."

At this point, Vorotnikov was interrupted by applause from Russian Supreme Soviet members.

He returned to the all-important problem of prices: The RSFSR "specializes in the development of industries from Group A [producer goods—RD]; and let us add to this, that some two-thirds of Russia is situated in the northern zone. . . . All of this predetermines more capital- and more labor-intensive production than in other union republics and reduces the effectiveness of the republic's economy. This is because profitability of, say, the fuel and power complex in our country is two times, three times lower than average, while in the Kuzbass, for instance, this is all the more true. After all, there is a reason the Kuzbass miners are now posing the question of raising the cost of the coal they are producing and of selling it not at 18 rubles per ton, but 24 rubles, so that they could make ends meet. . . . I think that improving prices policy is, perhaps, especially important. Without this . . . if we do not improve the prices policy, price formation, it will be difficult to establish equivalent relations."

As Vorotnikov knows full well, price reform is a big stumbling block for *perestroika*. Without it, the economy does not function, but end the huge price subsidies paid out by the state, and the soaring prices will lead to political explosions. Since those are occurring anyway, however, a section of the leadership appears prepared to force the issue.

## Army magazine admits truth about perestroika

Far from being an effort to bring capitalism into the Soviet Union, the Gorbachov-era economic reform known as *perestroika* was a product of the strategic planning committees at the Soviet Armed Forces General Staff. The troop and materiel cuts from the Soviet forces facing NATO in Western Europe are intended to clear the decks for a reorganization of Soviet and Warsaw Pact armies, with a more effective offensive capability based on airborne assault forces, spetsnaz, and electromagnetic effect weaponry.

These facts are not news to readers of *EIR* and our *Global Showdown*; but now they have reached the pages of *Army* magazine, the publication of the Association of the United States Army. In its August 1989 issue, Charles Q. Cutshaw writes about the "ominous new directions in posture" behind the Soviet force cuts. He traces the *perestroika* initiative back to Marshal Nikolai V. Ogarkov's declaration in his 1982 pamphlet *Always Ready to Defend the Fatherland*, that a "profound revolution . . . is taking place in military affairs in our time," in which breakthroughs in weaponry based on "new physical principles"—such as directed energy beam weapons and radiofrequency weapons—will require an entirely new Soviet order of battle.

"It is clear," Cutshaw writes, "that the Soviets had begun to rethink and restructure their forces based on the new revolution in military affairs several years before Gorbachov's unilateral announcements" of force reductions.

All aspects of Soviet foreign and economic policy, Cutshaw emphasizes, are subsumed by Moscow's strategy of total war against the nations of the West. "One has only to read the works of Soviet writers, Gorbachov included, on politics and economics to understand that in the Soviet view, the competition between the U.S.S.R. and the West, particularly the United States, is tantamount to war. . . . The characterization of the state of war is made even clearer by Col. S.A. Bartenev, Doctor of Economic Sciences, in the claim in his book, *Economic Conflict in Warfare*, that the United States is waging technological and economic warfare against the Soviet Union. . . . He says, 'We know that a war is not limited to armed struggle. It also involves other forms of struggle—economic, political and ideological—employed in the conduct of the war. This is essentially indicated by the entire history of wars.' "