

Battle rages to save Russian industry from shock therapy

by Rachel Douglas

The alarms sounded by leaders of Russia's State Duma (parliament), military officers, and economists have risen to a unison shout: The destruction of Russian industry cannot go on! Their consternation crescendoed after June 17, when Deputy Economics Minister Yakov Urinson warned that industrial output would fall by at least 26% for the first half of 1994 and had plummeted 53% in the month of May alone.

Above and beyond the consequences of these declines for the country's ability to recover and grow, the plunge of Russian industry is a loaded political question both at home and abroad. More and more, politicians as well as industrial managers speak angrily about foreign and internal attempts to turn Russia into "a colony."

On June 15, the London *Guardian* took note of "a revolt spreading through Russia's most powerful lobby, the military-industrial complex, over heavy cuts in the [defense] budget." There was an unprecedented labor strike at Severomorsk, headquarters of the Northern Fleet. Some 35,000 aircraft and missile plant workers demonstrated in Novosibirsk to protest the dismantling of industry. Vladimir Filipchuk, head of the All-Russian Union of Defense Industry Workers, hinted about a nationwide strike. At a special conference held June 21, the union demanded increased funding for military industries.

Without such an increase (which the budget adopted in late June did not provide), one long-time observer in Moscow told *EIR*, "there will be an extreme social crisis, with maximum unemployment and social unrest in the defense sector. This could soon prove to be a disaster. We have to be on guard for the worst."

As if oblivious to any danger, advisers to Russia from Harvard Business School and the London School of Economics insist that the bankruptcy of major industrial firms means

good riddance to "loss-making" enterprises, and that enough such plants have not yet closed.

On July 5, Deputy Sergei Glazyev, chairman of the Economic Policy Committee in the State Duma, charged that the government's fiscal policies have crippled Russian industry. If the course of President Boris Yeltsin and Prime Minister Viktor Chernomyrdin continued, Glazyev said at the outset of a parliamentary debate on the social and economic situation in the country, "deindustrialization" could reduce Russia to the status of a raw materials exporter, a Third World country.

Glazyev (a young economist who served as Minister for Foreign Economic Ties until resigning from the government last year) documented his warning with a report that showed a far more drastic decline in output from technologically developed branches of industry, such as machine-building and defense, than in mining and other raw materials sectors. Government statistics confirm that machine-building fell by 44% in the first six months of 1994, as part of the overall 26% decline in industry.

Already in May, Glazyev and other Duma leaders, including the chairmen of the Work and Social Support and the Industry, Construction, Transport, and Energy committees, formed a parliamentary faction to promote industrial recovery and halt the destruction of Russian industry. In a call titled "On the Critical Situation in the Sphere of Material Production of Russia," they demanded special government-parliament consultations. "The world history of economics has not known such destruction" as what is happening in Russia today, they wrote. "Energy units, construction, mines, factories are coming completely to a halt."

A special expanded session of the Russian cabinet, attended by deputies of the State Duma, heads of enterprises, and regional leaders, did take place on July 15. Speaking there,

Chernomyrdin maintained that the decline of industry was levelling off, inflation was under control, and monetary policy would "remain moderately tough." Glazyev promptly called for a vote of no confidence in the government—not so much, he said, to remove the present government from office, as to allow deputies to voice criticism and raise problems.

Glazyev and his cothinkers refuse to accept the argument that to be a modern market economy, Russia should abandon manufacturing.

Advice from the mental asylum

To abandon production, however, is what Russia's advisers from international financial institutions continue to demand.

In a paper for last April's World Bank-sponsored Annual Bank Conference on Development Economics, the notorious Prof. Jeffrey Sachs of Harvard (who has served as an adviser to the Russian government) discussed "Russia's Struggle with Stabilization," as he put it. Sachs showed the shrinkage of the Russian state budget, both revenues and expenditures, during the privatization of industry. Expressed very roughly as a percentage of GNP, government revenues are at scarcely one-third of their level just five years ago. Apart from regional withholding of tax payments to the Russian center, which Sachs mentions, the plunge in revenues results from the inability of half-strangled industrial enterprises to pay their taxes—as Russian machine-tool producer Anatoli Panov illustrates in the interview that follows here.

But for Sachs, this drastic diminution of centrally deployable funds is not enough. Russian military industry as a whole must go: "Clearly, a 'strong' [Russian] state should not mean the return to a Soviet-style militarized state, especially since the Soviet military-industrial complex (MIC) played such a central role in bankrupting the economy in the first place. Western assistance to support the reinvigoration of the Russian state, which will be crucial for stabilization, makes sense only in a framework of . . . scaling back of the MIC."

Sachs's vision of "assistance" to Russia includes, among other things, increased borrowing abroad—not for physical economic projects, but for financing the state deficit—and Russia's issuing dollar-denominated bonds, for the same purpose.

The type of extreme monetarism expressed by Sachs, who seems to think that a country's primary concern is its currency exchange rate, not production or consumption, came to Moscow in the person of London School of Economics professor Richard Layard, in June. Unfortunately, he was there for consultations with the Chernomyrdin government's coordinators of economic reform.

At a press conference in Moscow on June 15, transcribed by Federal News Service, Layard addressed what was on many people's minds: the decline in industrial output. "We have to recognize that we have no reliable figures on output in Russia," said Layard. For Layard, the economy is a zero-

sum game: Yes, output is falling in industry, but it must have "obviously increased in other parts of the economy."

Many Russians are no longer employed in industry, he went on, "but the striking thing is how few of the people who left were actually dismissed because there were no jobs for them, only 1.5%. Nearly all the others left voluntarily, in many cases, of course, because the wages have become so low that they could do better to go to some other enterprise." What other enterprise? "Industry has lost 9% of workers, but finance has gained 7%. . . . The other place that people go to, of course, if they leave enterprises, is self-employment . . . and you can see [from one of Layard's statistical tables] that the number of people who are self-employed increased by 50% [in the first part of 1994]. So, you have a system where basically people are being redeployed, are moving directly from one job to another."

Layard did not reveal whether the "self-employed" counts those engaged in *kuplya-prodazha*, "buying and selling" on the street. That is where masses of people—former doctors, former machinists, teachers, and engineers—have turned for their subsistence, in every city and town in Russia.

In conclusion, the London professor expressed his disdain for industry and for the productive skills of human beings: "There is a problem which is that the people are still actually working [at factories] and around on the shop floor when there is nothing for them to do. This slows down the reorganization of the shop floor. . . . They should be, above all, retrained. And I think I pointed out once before that whereas in Russia nearly all workers are trained in skills based on physical sciences, in a market economy at least half the people do jobs that don't require that kind of skill at all, that require commercial skills. . . . In Russia training was of good quality, but focused on activities based on physics, chemistry, engineering, medicine, whereas in a market economy at least half the jobs are based entirely on commercial skills."

Dumbing down

Please remember Professor Layard's words, as you listen to Anatoli Panov in the pages that follow. "Commercial skills" mean the tricks of monetarist bankers, who in Russia overlap with organized crime. They buy from hungry citizens, for cash, the state-issued vouchers for the purchase of shares in privatized industrial firms. Gaining control of an industrial company, they run it for the greatest immediate profit: not investing in improvements for production, but asset-stripping and even—Panov suspects—clearing the shop floors to rent as office or warehouse space! Is that why Professor Layard wants idle workers off the shop floor, to make way for real estate speculation?

Think about what it means, not only for Russia but for a world that sorely needs capital goods, for Panov's factory, a unit that served not only as factory but also as laboratory and training center, to be dismantled and its skilled work force dispersed.