

The coming end of the so-called reform policies in Europe's East

by Michael Liebig and Konstantin George

The following analysis was written by Michael Liebig and Konstantin George of EIR Nachrichtungagentur in Wiesbaden, Germany, and presented by Uwe Friesecke at the International Caucus of Labor Committees (ICLC)-Schiller Institute conference in Northern Virginia on Feb. 19, as the concluding part of an overview of Lyndon LaRouche's Ninth Economic Forecast.

Nineteen hundred ninety-five will almost certainly be the year marking the end of the post-communist, so-called "reform" era in eastern Europe and the former Soviet Union. This discontinuity or phase change will occur more or less in tandem with the ongoing breakdown process of the present bloated world financial system. The protracted, massive physical-economic attrition and the breakdown of living standards in the ex-communist states has reached its physical limits. In the late 1980s, Margaret Thatcher and George Bush succeeded in imposing on all eastern Europe and the former Soviet Union, International Monetary Fund (IMF) shock therapy policies.

The economic and social devastation brought about by these so-called reform policies came on top of the communist system's decades-long primitive accumulation policies against living standards, infrastructure, and the civilian industry. Over the past five years, the so-called reform policies have cut the productive capacity in the ex-Soviet Union by 60%! The ruin brought to this part of the Eurasian continent has long since passed the level of what British and allied oligarchs love to term "controlled disintegration." What is occurring, and at an ever accelerating rate, is outright disintegration: economic disintegration and the political disintegration of the regimes in Russia, the former Soviet republics, and eastern Europe, which have been to date the executors on the scene of IMF policy. So now, in 1995, the economic-social disintegration is irreversibly transforming into the political disintegration of the "reform nomenklatura" that ran the ex-Soviet Union since 1985 and especially since 1992.

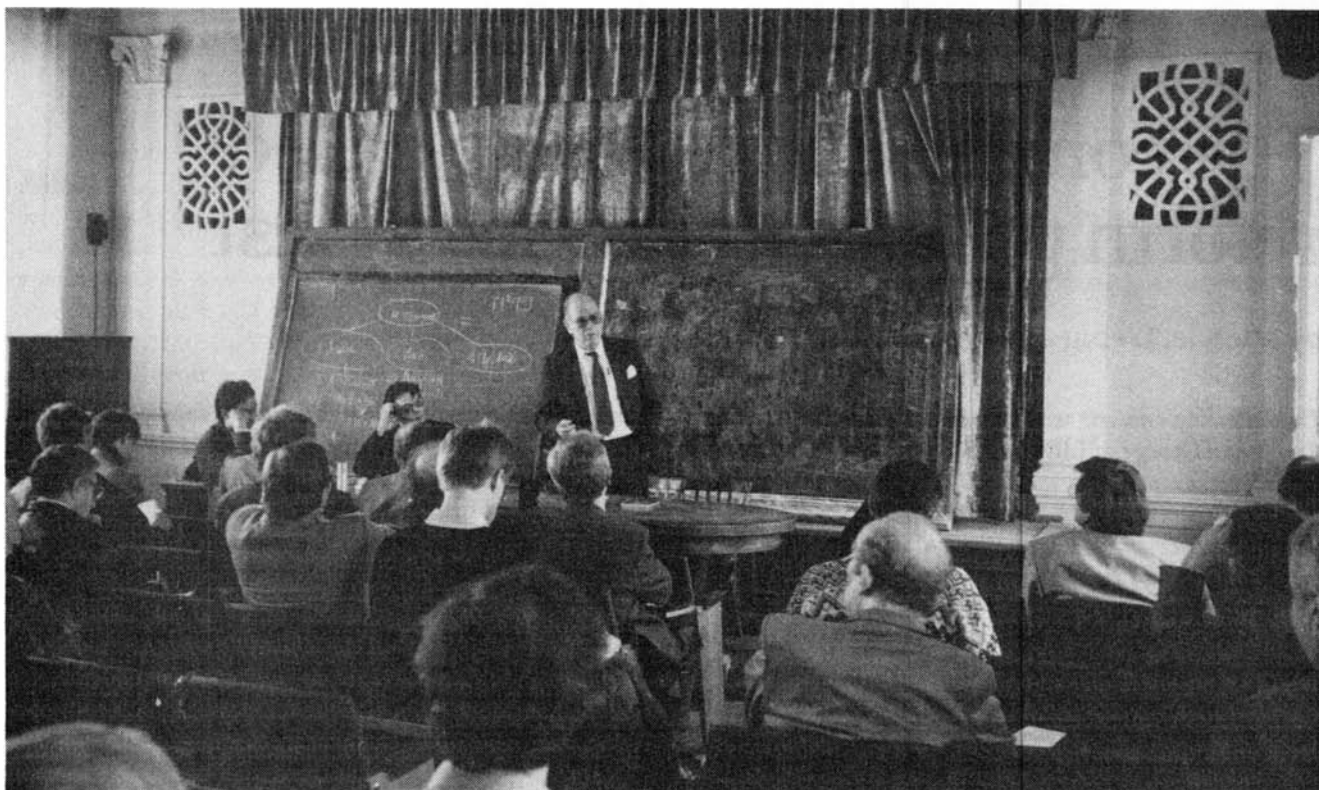
The disintegration process accelerates

The accelerating rate of physical-economic disintegration is also indicated symptomatically by inflation, capital flight, and fraudulent "privatization" schemes, and the astro-

nomical intra-enterprise debt. The rate of capital flight out of the former U.S.S.R. is increasing continually since 1992. The rate of "privatization" sell-off of choice state-owned assets at a tiny fraction of their real worth, often to hidden foreign interests, has also escalated since 1992, via Russian mafia-linked banking and other financial interests. The depreciation of the ruble, and of other currencies in the Community of Independent States (CIS), has skyrocketed recently. Note that it took the ruble 32 months, from the start of shock therapy in January 1992 till August 1994 to fall from 70 to the dollar down to a rate of 2,000 to the dollar. It has taken the ruble less than six months, August 1994 to the present, to fall another 2,000 points, to about 4,200 to the dollar. It is this acceleration quality which will produce not only the certain end of the policies, but cause them to end quite abruptly. This abrupt phase change will be signified by the sudden appearance of discontinuities, breaking with the preceding state of affairs and flow of events in the former U.S.S.R. and eastern Europe.

It is by no means to be excluded that sometime this year it could be an East European debt crisis that could be one of the triggers of a chain-reaction collapse of global financial markets. Eastern-central European countries like Hungary, Poland, or the Czech Republic have been made "emerging market" countries with bloated financial markets since 1989. The recent resignation of Hungarian Finance Minister Bekesi, who quit with the words that "Hungary could be the next Mexico," has highlighted this. Hungary, with one of the highest per capita foreign debts in the entire world, is certainly poised to become the next Mexico. It is by no means the only candidate in the East for such a role.

The greatest crisis of all is what is happening to Russia, for obvious global strategic reasons, given Russia's status as a military nuclear superpower. The dimensions of the Russian crisis, caused by the imposition of the IMF's so-called reform policies, are absolutely staggering. Let us examine somewhat what Russia looks like today by citing the dry, understated annual figures just released in February by the Russian State Committee for Statistics: According to these official figures, in 1994 Russian Gross Domestic Product fell by a record 15%. The fall in industrial production was also a record, where for the first time it exceeded 20% in only one



Lyndon LaRouche lectures at the Russian Academy of Sciences in Moscow, April 28, 1994. His views are now the subject of intensive debate among the Russian intelligentsia.

year. Current industrial production is about one-half what it was in 1991, and well under half of the level in 1989. The devastation in Russia is even greater when one examines critical industrial sectors. The level of production in the vital machine-building sector has been reduced to only one-third of what it had been in 1990! The ability of Russian industry to provide basic consumer necessities for the population has in effect been destroyed. Light industry as a whole is currently producing at only 20% of its 1990 level. A tour of shops reflects this: Approximately 90% of food and basic consumer items are imported. The Russian domestic market, and this is the case in Ukraine and other republics as well, is supersaturated with imported consumer items. In contrast to this flood, imports of capital equipment to modernize industry have all but ceased in the past three years. Equally nonexistent have become imports for the maintenance of infrastructure, for example, rail rolling stock, items for power plants, and medical equipment.

Deindustrialization and 'capital export'

One of the great lies perpetrated by the ideologues and practitioners of post-communist so-called reform is that the policy is directed at closing down allegedly "unproductive," "technologically backward," and "unprofitable" enterprises. Concerning those enterprises in Russia and elsewhere which

are indeed technologically backward and in need of modernization: Over the past years, modernization investments in industrial plant and equipment has been virtually at zero. So what is happening is crude deindustrialization on a grand scale!

In Russia, and in Ukraine, the most important sector of the economy is the high-tech military-industrial complex (MIC), as it forms the key to the successful regeneration of the economy as a whole. In Russia, already by the end of 1993, about 1.5 million of the 6 million employed in the military-industrial complex had been thrown out of work. By the end of 1994, this figure stood at between 2 million and 2.5 million. One must add to this that at many of the enterprises still open, the workforce is technically "employed," but in plants producing at 10-15% of capacity. Thousands of state enterprises are at the brink of closure as the inter-enterprise debt crisis has reached truly astronomical dimensions. Russia is on the verge of a surge in mass unemployment threatening to dwarf that of the previous years. The budgetary triage of the military, the military-industrial complex, and industry and agriculture in general have reached the point where mass bankruptcies are simply inevitable.

In Ukraine, the crisis is perhaps even more dramatic, as even the minimal levels of military procurement orders still existing in Russia are nonexistent for Ukraine. Large plants in Ukraine, which had been crucial high-technology compo-

ment suppliers for the Soviet space program, have lost up to 85% of their original workforce. On an even more concentrated scale than in Russia, the best educated and technically most skilled segment of the workforce has been thrown to the winds. Highly qualified engineers and scientists, in order to physically survive, either work for \$25 for George Soros's "foundations," emigrate to the West (if they can), or become petty peddlers. Typically, ex-engineers or technicians travel to Istanbul, Turkey to buy textiles or other consumer goods to sell on the vast "private peddler markets" of Kiev or other larger towns.

The collapse picture extends as well to the sectors of the economy that are often misreported in the West as "doing well" in the midst of the wreckage all around them. These are the energy sector and the production of base metals. The only sub-sector, relatively speaking, "doing well," in that it has "only" suffered a modest collapse since 1990, is natural gas, whose production last year equaled 90% of the 1990 level. Otherwise, as a whole, the energy and metals sectors have seen their output fall at rates comparable to what has occurred in industry. Oil output in 1994, for example, was at only 60% of the 1990 rate. The real dimensions of this part of the tragedy only begin to become obvious when compared with the plummeting of production. Putting the two sets of figures—export volume and internal raw material consumption—together shows that the collapse of energy and raw materials consumption in Russia and the CIS far exceeds the already very steep falls in production.

We can briefly cite here some figures for key base metals. Copper production in 1990 was ca. 800,000 tons; in 1994, it was ca. 300,000 tons. In the same period, copper exports rose from 300,000 tons to 400,000 tons. That exports can exceed production is accounted for by the vast scrap metal export business that has ballooned in the past three years. Nickel production in 1990 was 300,000 tons, falling in 1994 to 190,000 tons. In the same period, exports rose from 100,000 tons to 150,000 tons. For aluminum, the fall in production as such, was moderate. The 1990 production was 2.9 million tons, and in 1994 some 2.6 million tons. However, here again, the export picture tells the story. In 1990, three-quarters of Soviet aluminum went for the domestic economy, with only 700,000 tons exported. In 1994, some 2.1 million tons were exported.

Parallel to the commodities "export boom" of the last three years, another "boom" has occurred, namely, that of capital flight. The total of capital flight out of the U.S.S.R., and then out of Russia and the other former U.S.S.R. republics is very difficult to estimate. Estimates range between a minimum of \$100 billion and—probably more realistic—\$200 billion. Even the conservative amount is well in excess of the entire Russian foreign debt. To cite even a ridiculously low, understated official figure, the Russian Central Bank has estimated capital flight out of Russia for 1994, at a minimum of \$1 billion per month.

Mass poverty, the health crisis, and the demographic disaster

The 1994 annual inflation rate was 220%, which itself came on top of two previous years of hyperinflation. As in the aforementioned case of industrial production collapse, the rate of inflation is continually accelerating. In Russia, the highest monthly inflation rates occurred in the last three months of the year, with the 1994 monthly record, 16.8%, reached in December, the last month of the year. The January 1995 official inflation rate, reported on Feb. 7, was even higher, reaching 17.8%.

Our details have focused mostly on Russia, but the picture we have given is symptomatic for the East as a whole. Regarding living standards, the situation is better in most, though not all, of eastern Europe. In Romania and Bulgaria, where even official unemployment is at 20%, for example, the scope of abject poverty rivals that of Russia. Elsewhere in the former Soviet Union, in Central Asia and the Caucasus, the rates of both the fall in production and collapse of living standards have exceeded those of Russia and Ukraine.

As Lyndon LaRouche has always stressed, the IMF "reform" policies associated with Thatcher-Bush are not only incompetent and insane, but consciously criminal. Using even the conservative figures of the Russian government, by the end of 1994, one-quarter of all Russians are officially "living" on incomes below the minimum existence level. About half the population is at or below the official poverty level. For Ukraine, the second most populous of the former Soviet republics, that latter figure is between 70 and 80%. Some 78% of all Ukrainians do not earn enough to even cover the normal food needs for their family. Without proper nutrition, resistance to disease and infection has been drastically lowered. The health sector has been turned into a nightmare, with even basic equipment and medicines either in very short supply or simply nonexistent.

It must be emphasized that the Russian official statistics, chilling as they are, greatly and deliberately understate the actual scope of impoverishment. They may give the "correct" monthly wage for every person, but they omit a basic detail, that a year contains 12 months. The overwhelming majority of Russian and Ukrainian workers are owed at any given time three to four months of unpaid back wages. Thus, the true income picture for workers is a 1994 income about two-thirds that of their "statistical" income. With this reality-based correction, a good deal more than one-quarter of the population is at or below the subsistence level, and far more than one-half is at or below the official poverty line.

The phenomenon of widespread, abject poverty has hit the older part of the population the hardest. As a rule, the retired part of the population is either below the poverty line or below the minimal subsistence level. The popular saying is that pensioners receive "too little to live, but too much to die." The truth is that they are dying, and at staggering rates. Three years of so-called reform have brought to Russia,

Ukraine, and elsewhere, a demographic catastrophe worse than the combined losses of communist terror and World War II. When one considers that now there are no invading armies pouring across borders, the current debacle is without any parallel. In 1994, more than 1 million more people died in the Russian Federation than were born. This was the fourth consecutive year of population shrinkage, with the rate of shrinkage rising in each of these years. If the present trends were to continue, then the Russian population, which stood at 147.9 million in the 1990 census, would sink to a mere 126.7 million by the year 2025. Life expectancies for men now compare unfavorably with much of the developing sector. In 1994, male life expectancy in Russia fell to only 58.9 years. In 1990, it had been 63.8 years. The infant mortality rate has more than doubled since 1990. Then, the average for the Soviet Union was 14 infant deaths per thousand born; in 1994, the average for the territory of the former Soviet Union stood at 30 per thousand.

The LaRouche factor

In his Oct. 12, 1988 Berlin address, Lyndon LaRouche anticipated the monumental changes that were about to occur in eastern-central Europe and the former Soviet Union. And LaRouche stated clearly that, as this process of change had been driven primarily by economic factors, namely, the communist system's "primitive accumulation" policy, a physical-economic reconstruction strategy would determine if the transformation process would be one of stability and peace. In November-December 1989, LaRouche presented, from prison, the outline of his "Productive Triangle" policy for an infrastructure-vectored reconstruction and modernization strategy for the whole European continent. At that time, Poland was the laboratory and test-bed for post-communist economic policies in Europe's East. It then was in Poland that the IMF's "shock therapy" policy was introduced first. In the summer of 1989, George Bush had stated in Warsaw that "the West" would categorically insist that post-communist economic reform had to be based on "free market" policies and IMF conditionalities. Some in Europe, such as Alfred Herrhausen, opposed the Bush-Thatcher policies and thought in a direction similar to that of LaRouche. Herrhausen explicitly stated that Latin America-style IMF policies should not be applied in eastern Europe, and that instead the German and French model of post-World War II reconstruction should be applied in ex-communist economies. On Nov. 28, 1989, Herrhausen was assassinated.

The first main focus of the ICLC's strategic intervention into central-eastern Europe on economic policy was ex-communist East Germany in the period between November 1989 and spring 1990. During spring and summer 1990, representatives of LaRouche went to Hungary, Poland, and then-Czechoslovakia for high-level meetings and seminars. In autumn 1990, LaRouche representatives went to the Baltic states, then still part of the Soviet Union. In spring and

autumn 1991, two major international conferences featuring the "Productive Triangle" were held by the Schiller Institute in Berlin. At these conferences the participants came from nearly all former Warsaw Pact countries and many republics of the Soviet Union, including Russia, Ukraine, the Baltic states, Armenia, and Georgia.

LaRouche's December 1991 analysis

Toward the end of 1991, after the disintegration of the Soviet Union, the regime of Boris Yeltsin endorsed the "shock therapy" package for Russia that had been worked out by senior IMF representatives, Harvard's Jeffrey Sachs, the Swedish "free market" freak Anders Åslund, and Yegor Gaidar's "group of 13 experts." In January 1992, "shock therapy" was officially inaugurated as the Russian government's economic policy. In the last days of 1991, LaRouche formulated a policy paper contrasting his economic reconstruction strategy with the IMF's "free market" reform descending on Russia. This paper, in the Russian language, is still circulating today in Russia because of its good analytical and prognostic quality. LaRouche then said, "The only likely source for a nuclear crisis . . . aside from a special situation in the Transcaucasus, is the danger that Boris Yeltsin, the President of the Russian Federation, might follow the pathway toward bankruptcy which the Polish government pursued . . . at the instruction of Harvard's lunatic professor Jeffrey Sachs. The result would be chaos. In such a case, the overthrow of Yeltsin by a dictatorship would probably occur."

LaRouche emphasized that a viable domestic market had yet to be created in Russia. That could only be accomplished through an economic and financial-monetary policy of the state focusing on expanding the production output of the state industry and new private *Mittelstand* (small and medium-sized) firms. The supreme task was the expansion of Russia's productive potential in terms of capital goods, infrastructure, and consumer goods. LaRouche pointed to the need to make maximum use of the vast physical economic potential of Russia's military-industrial complex. The MIC contained the best qualified workforce and the technologically most advanced equipment, which was (and is) indispensable for Russia's national economic reconstruction and Eurasian development as outlined in the "Productive Triangle" plan.

"The essential problem is," said LaRouche, "that after 70 years of saying capitalism is theft and crime, Mikhail Gorbachov said, 'You're all capitalists!' and a great number of communist officials became thieves and speculators. . . . The people are the purpose of the government, when [the government gets controlled by] hoarders, black marketeers, and criminal elements, then the people will get rid of the government. . . . The essential thing is you have to go to a controlled price; a calculated, fair price based on cost of production [parity price]. . . . You are going to have

administered prices, administered uses of currency [currency reform], administered credit, administered exchange controls, export-import licensing.”

Indicative of LaRouche’s influence in key quarters of the Russian elite and intelligentsia is the publication and discussion of his ideas and policies in leading Russian newspapers and journals, ranging from leading dailies such as *Nezavisimaya Gazeta* or *Pravda*, to the opposition daily *Oppositsiya*, or the influential policy journal *Russia 2010*. His ideas on physical economy have reached many thousands of leading Russian and Ukrainian intellectuals and officials through the publication of his economic textbook, *So, You Wish To Learn All about Economics?* in both the Russian and Ukrainian languages. Important political and scientific persons from Russia visited LaRouche while he was still imprisoned. LaRouche had extensive political and scientific discussions in Moscow, which he visited in April 1994. Since then, many more such scientific and policy discussions have taken place in the United States and in the context of LaRouche’s visits to western and eastern Europe.

The 1995 phase-change

Today, in 1995, as a consequence of destroying Russia’s physical economy, vast social and political upheavals and military conflicts are accompanying the inevitable death of the failed so-called “reform” policies. We have seen, especially since November 1994, the “power struggles”—the unspeakable intrigues and machinations—in and around Yeltsin’s camarilla, which increasingly has lost contact with reality. Yeltsin’s war in Chechnya was a desperate attempt to conjure up a “patriotic” war for Russia’s “integrity,” to deflect mounting opposition against him and his camarilla. Both the war and the diversion attempt have been failures. The course of events associated with the war in Chechnya has brought to the public domain the fact that the military is united in its opposition to the present regime. This opposition was not because of the war; it was there before the war, and formed a critical reason behind Yeltsin’s desperate gamble. Together with the policy phase-change among the elites, a social explosion from the Russian population is beginning. The 24-hour national coal miners’ strike, on Feb. 8, occurring together with an indefinite strike by all 76,000 miners of the Rostov region that began on Feb. 1, is only the beginning. Though the labor grievances are very real, as the miners have not been paid since November, these are not mere labor protests, as the demands raised are economic and political.

The West will be confronted with a profound, indeed seismic, and potentially, though not necessarily, very dangerous Russian situation. LaRouche has emphasized that the justified rage of the Russian population and leading patriotic institutions against the destruction in the name of “reform” imposed on Russia could take the form of undifferentiated rage against the West in general. This would be the social

base for a regime reactivating an adversarial relationship vis-à-vis the West. LaRouche has been working to shift decisive groupings in the Russian elite away from combining the inevitable cessation of so-called reform policies, with the strategic blunder of embarking on an undifferentiated anti-western adversarial course. The question of defining for the coming regime in Russia a physical-economic reconstruction strategy for Russia and Eurasia, is probably the single most important factor of preserving the basis of cultural and political rationality and genuine self-confidence in Russia’s elites and population.

In the months ahead, as LaRouche has said, the lid will come off in Russia, and the lid will be coming off quite soon. From every side, the array of crises lawfully generated by three-plus years of continual, accelerated economic breakdown, are converging in crescendo fashion over Russia, not at some distant point, but now and in the very immediate future. They are already unleashing the most profound year of political-social change in Russia since 1917. As in 1917, this is the coming end of the present, *ancien regime*.

Let me end by comparing what the experts said as recently as three months ago, to what Mr. LaRouche’s analyses have been and what his proposals have been. Carnegie Endowment associate Anders Åslund, the official adviser of the Gaidar government, published in the September-October 1994 New York Council on Foreign Relations magazine *Foreign Affairs*, under the headline “Russia’s Success Story,” the following:

“The Russia emerging today is very different from what pessimists have prophesied. It is not falling apart but coming together. The new political institutions function. Strikes are rare, and no serious social unrest is on the horizon. Incredibly, most of the Russian economy, measured by either employment or output, has been privatized in just two years. Russia has already become a market economy, but one in the midst of a long-overdue and massive restructuring. In short, Russia has undergone fundamental changes and appears to be on the right track. . . .

“The time of fast and radical change is over in Russia. Fortunately, much of the transformation has been accomplished. Basic political institutions, such as an elected President, an elected parliament structure by political parties, and a more western constitution already exist.

“Russia has now entered the stage of ordinary politics, when interests are more important than ideas. Compared with what has been achieved already, the remaining tasks are relatively limited. . . .

“Russia has at last become a relatively predictable country. The fundamental political and economic institutions have been created. The time has arrived to end discussions about the pending collapse of Russia. . . .”

I invite you to use your own judgment about who was right and who was wrong.