Time Is Running Out for the Russian Economy

by Jonathan Tennenbaum

In an interview published in the Russian weekly magazine *Sobesednik* on May 23, and widely commented upon in the Russian media, the head of the State Duma's (lower House of Parliament) Economic Policy Committee, Sergei Glazyev, warned that Russia is headed for a new disaster, unless a radical correction is made in the economic policies which have prevailed since the removal of Yevgeni Primakov's government in May of last year. Otherwise, within a maximum of a year and a half to two years, the physical basis for rebuilding Russia's devastated economy would be gone. "It's time for people to understand, that without a mobilization of production, without an aggressive and rapid introduction of new technologies, we will never move off the dead point," Glazyev said. In the meantime, he warned, Russia is about to repeat the disastrous pattern of 1994-98, when an inflow of speculative capital created the GKO (government bonds) bubble, which burst in the Summer of 1998, wiping out countless businesses and banks. "The crisis we are on the threshold of now, will be much worse than in August 1998," he declared. "It will be connected with the total wearing out of all plant and equipment."

Glazyev's interview came shortly before Andrei Illarionov, just moved from his post as Economic Adviser to the Russian President to become Presidential Envoy to the G-7 countries, arrived in Washington to present a glowing picture of an alleged "economic miracle" in Russia. After claiming a miraculous budget surplus, growing hard currency reserves, foreign investment of $9 billion already this year, and a promised GDP growth rate of 5%, Illarionov called for setting up a currency board for Russian on the model of Chile. Although Illarionov's claims are exceptionally extravagant, and not in agreement with the more sober statements of Prime Minister Mikhail Kasyanov, the story of an alleged "economic miracle" going on in recent months has circulated widely in the press, both inside and outside Russia.

Glazyev, one of the most respected young economists in Russia, had a very simple rejoinder: "What growth?" he asked. "We are experiencing an economic shrinkage." Glazyev explained that there had indeed been a certain real growth in industrial production after the August 1998 collapse of the Russian financial system, up to December of last year. "As is well known, this growth was connected with the sharp increase in the competitiveness of domestic goods and import-substitution, caused by the devaluation of the currency by a factor of three," he said. "The inertia of this growth, while weakening continuously, continued until December." After a slight spurt connected with the fact, that the population temporarily had more money to spend, the crucial indicators turned negative. "We are experiencing contraction, not growth, and it is impossible to make a medium-term prediction under present conditions," Glazyev said. The problem, he stated, is that the government after the fall of Primakov, has stopped intervening into the economy. "Judging from the

LaRouche's Ideas Taken Up at Russian Academy Seminar

"Globalization and Its Consequences," was the title of a 90-minute lecture, delivered on June 5 by Prof. Taras Muranivsky at the longest-standing regular seminar at the Russian Academy of Sciences (RAS), the RAS Institute of Physics (FIAN) methodological seminar conducted by Prof. L.A. Shelepin. This session was held jointly with the seminar on economic modelling, established by Professors G.G. Pirogov and D.S. Chernavsky. Approximately 100 specialists took part, including representatives from the RAS Institute of Economics, the RAS Institute for Management Problems, the RAS Institute of General Physics, the Lomonosov Moscow State University, and other institutions.

Professor Muranivsky, who is president of the Schiller Institute for Science and Culture (Moscow), devoted his report chiefly to the questions discussed at the international conference of the Schiller Institute, held on May 26-28 in Bad Schwalbach, Germany (see *Feature* in this issue). There was especially great interest in the evaluations of the current economic, financial, and political situations, given in Lyndon LaRouche's report, "On the Subject of Strategic Method." Professor Muranivsky developed, in particular, LaRouche's methods of forecasting, the seven structural changes in the form of the modern nation-state, identified by LaRouche, the necessity of a New Bretton Woods system, and questions of culture and of physical economy. Fifteen of the participants in the seminar took part in the discussion of Muranivsky's report, the majority of whom focussed on the need to use LaRouche's ideas for solving Russia's economic problems.

first months of 2000, the present government does not differ in any way from that of [former Prime Minister Viktor] Chernomyrdin."

Why Economic Growth Was Reversed

Glazyev identified three factors behind the recent reversal of the post-August 1998 economic growth.

"First, the pressure of the monopolists, especially in the areas of metallurgy, chemical industry, and gas and oil processing. After May [1999] the structure of prices drastically changed, and the prices of construction materials and chemical raw materials rose to world levels. . . . The inflationary increase due to the increase in raw materials and fuels amounted to *5% per month* during the second half of 1999. This means that the costs of production of all products of manufacturing industries have grown by nearly one-and-a-half times in the course of half a year." Glazyev explained that the Primakov government had kept to a "strict policy of stopping any increase in the prices of fuel." Industry responded with a rapid upswing, which stopped beginning May 1999, as a result of the increase in prices of raw materials and oil. The government withdrew its financial support of the producers and went over to supporting the monopolists, as has been usual in recent years. That means the oligarchs."

The second cause of the present shrinkage, according to Glazyev, is a "sharp and significant increase in the cost of credit."

"The third reason, why there has been no Russian economic miracle, is particularly obvious: The control over the flow of capital out of the country has weakened considerably. . . . According to my estimates," said Glazyev, "last year 40% of all investable capital accumulation left the country."

When asked about Western promises to invest in Russia, Glazyev replied that, indeed, the Russian financial market had once again become atractive to speculators. But, as in the first half of the 1990s, the speculative money coming into Russia "will not reach the productive sector, but will circulate in financial pyramids." The expectation that Russian enterprises would become profitable, under a continuation of present policies, Glazyev denounced as "a myth. . . . At current fuel prices, the production of gold is already unprofitable."

Glazyev denounced the recently completed economic program of German Gref—another adviser to Russian President Vladimir Putin, recently elevated to a ministerial chair—as "re-chewed neo-liberal doctrine," and asked why the government was not listening to the Russian Academy of Sciences, which had put forward real solutions for the country's economic problems. "Above all, we need an elastic monetary policy, oriented to the requirements of production. The channeling of financial flows into the productive sphere and the refinancing of enterprises." Otherwise, Russia's decline into the status of just a raw materials exporter will soon become irreversible.

Europe Is Entering Post-Maastricht Era

by Rainer Apel

The entire construct of the "Maastricht Europe," named after the Dutch city of Maastricht where the treaties on the final phase of the European Monetary Union (EMU) and its single currency, the euro, were signed in February 1992, has been unstable from the start. *EIR* has said so, over the years, and numerous independent economic experts in Europe have said so as well. But, despite the many early warnings, the final go-ahead for the euro was signed by the 15 European Union (EU) members in April 1998, and the EMU currency was introduced, in the first phase as an accounting unit between banks, on Jan. 1, 1999. Since then, the euro has lost 25% of its initial value against the dollar, and although most citizens of the euro zone do not know that the European Central Bank allowed the currency to fall that far in order to prop up the dollar and Wall Street, they have rapidly joined those citizens who have opposed the monetary union experiment from the start. Now, the EU members have been forced to react to this erosion of popular support for the EMU and the Maastricht Accords, and France and Germany in particular have initiated discussions for modifying the EMU structures, in order to build resistance against the ongoing Anglo-American pressure on the euro. The road chosen for that by Paris and Berlin, is to strengthen coordination among the 11 EMU members, and to give it a specific structure, which they call the "Euro-11 Secretariat."

This proposal has upset Britain, because it is not a member of the EMU, but only an influential member of the conference of the 15 EU finance ministers, the "Ecofin." It has been through this institution, and through its membership in the European Commission (EC), that Britain's diplomacy exerts considerable control over EU affairs. The Franco-German Euro-11 Secretariat, which would also play the role of a political watchdog against the European Central Bank, is challenging the exclusive British game of being able to codetermine and shape economic and monetary policies for all of the EU, while at the same time not being bound by those policies itself.

The British are enraged at the French and Germans, but they are probably more enraged at themselves, because they all knew that something might emerge around France's half-year EU presidency, which begins in July, but the Tony Blair government did not take it seriously. So, when the French and German finance ministers sat down at the end of May to discuss giving the Euro-11 more weight against the European Central Bank, London was taken by surprise. Apparently, the