

Social unrest is harvest of Russian shock therapy

by Denise M. Henderson

At ceremonies in Berlin on Aug. 31 marking the end of the Soviet-Russian presence on German soil, Russian President Boris Yeltsin and German Chancellor Helmut Kohl exchanged very friendly remarks. Yeltsin hailed the “new era” in Russian-German relations, and stated that “a new stage in our bilateral relations has begun. We are looking to this with optimism and hope.” Yeltsin praised Chancellor Kohl several times, saying that this hope has stemmed “from the actions of Helmut Kohl. . . . We are great friends. . . . The new Russia and the united Germany are striving today to define their place in the changed world. . . . The postwar period of Russian-German relations is over with. It is being replaced by a period of friendship and cooperation.”

There is “something in the wind,” as Lyndon LaRouche noted in an Aug. 31 interview with “EIR Talks.” Calls which echo LaRouche’s 1989 Productive Triangle proposal for a hub of high-technology industrial and infrastructure development within the Berlin-Vienna-Paris region, which would spark the rapid economic development of the newly reunified Europe, are coming from many different levels of policymaking. These include the large-scale infrastructure-building projects proposed by former European Commission President Jacques Delors, and welcomed by both Kohl and U.S. President William Clinton.

If these potentials are realized, it won’t come a moment too soon for the crippled economies of Russia and its former satellites in eastern Europe. In the report which follows, William Engdahl analyzes the consequences of four and a half years of International Monetary Fund (IMF) and World Bank policies in eastern Europe, including the former Soviet Union. Unless the Productive Triangle approach is implemented, the West will find itself facing a hostile Russia armed with nuclear weapons seeking to restore its borders, and its former empire.

Shock therapy paralyzes the patient

What has been the overall result of Harvard punk Jeffrey Sachs’s shock therapy on Russia? Sachs, along with other IMF flunkies such as Anders Aslund, at the



President George Bush awarding his cohort former Prime Minister Margaret Thatcher the Medal of Freedom, the highest U.S. civilian medal, after their one-world geopolitical designs had all but destroyed the economies of the former socialist nations. A new policy thrust for Eurasian cooperation for economic development is emerging, and none too soon.

behest of the IMF and the World Bank, proposed a so-called liberalization policy for Russia: liberalization of prices and privatization of state businesses leading, in its latest phase, to the shutting down of those enterprises which cannot turn a profit. This supposedly benign shock was administered through their willing Russian cohort, former Russian Prime Minister Yegor Gaidar.

Through such means, the IMF put Russia on the road to its latest crisis, demanding inflation be stopped as a precondition for any loans. (Inflation that sometimes hit an annual rate of 2,000% was touched off by the IMF-prescribed price liberalization of January 1992 in the first place!)

The business section of the weekly *Moscow News* for July 31-Aug. 7 reported: "According to a report of the Russian Federation Government Center for Economic Conjunction, there has been success in the recent period, in accord with the wishes of the International Monetary Fund, in sharply reducing the rate of inflation to 5.1% per month" in July. But in order to bring itself into accord with the ruinous policies of the IMF in order to "reduce inflation," the government slashed or froze payments. This paralyzed what remains of Russia's real economy.

These measures also meant that the most impoverished citizens suffered most. The denial of an anticipated increase in pensions, for example, caused a minor social explosion. After both houses of Parliament voted almost unanimously for a 150% increase in the minimum pension effective Aug. 1, President Yeltsin ordered the pension floor lowered by 115%, back to nearly the previous level, according to the

weekly *Argumenty i Fakty* (No. 32, August). Thereupon "old ladies' revolts" rolled through Russia. In mid-August, in the Ural city of Chelyabinsk, pensioners demonstrated at the provincial Department for Social Protection. In Ivanov, veterans picketed the legislative assembly. In Kursk, pensioners attacked the center where pensions are dispensed. A "tense situation" was reported in Krasnoyarsk and Syktyvkar, while in Yekaterinburg, Ufa, Petrozavodsk, and Moscow there is serious concern about a "social explosion."

More cuts in social spending

Thus, against a background of ever-decreasing tax revenues, the budget is being "economized" by sharply reducing expenditures for social needs, above all at the expense of those layers of the population which the government has deemed "useless" and who, it is believed, cannot mount serious resistance to the attack on their rights. In some places, rage at government policy has assumed extreme forms. During the week of Aug. 15, a passenger train was blown up in the Siberian city of Chita, in what some experts called an act of sabotage, a sign of protest and despair committed by workers who had not been paid for several months.

Large-scale shutdowns and bankruptcies in Russian industry, resulting in growing mass unemployment, are expected to continue and increase during the fall. Thus, the risk of a social explosion is being discussed more and more openly by officials and in the Russian press. On top of a renewed crisis of payments among enterprises, the tolerance of workers and soldiers for non-payment of their wages has reached

a breaking point.

As of Aug. 25, the Russian government estimated that inter-enterprise debt had reached 112 trillion rubles (\$56 billion), almost as much as total government revenues for 1994. A wave of bankruptcies threatens to put 8 million people out of work by the end of the year.

Those who are still working are not being paid. Total liabilities of Russian enterprises to their workers have reached 3.4 trillion rubles (\$1.7 billion), affecting at least 33,000 firms, and the backlog grew by 16% in June alone, according to Russian government statistics cited in the Russian edition of the London *Financial Times*. Reports have reached Moscow that some atomic power stations will have to close because, after the imposition of layoffs connected with the non-payment of wages, insufficient personnel remain to operate them, while other key plants face Sept. 1 strike deadlines.

On Aug. 24, Vice Prime Minister Yuri Yarov told *Rossiiskiy Vesti* newspaper that he would not rule out strikes this fall, and demands for pay that the government could not handle.

Since Aug. 5, a special commission under First Deputy Prime Minister Oleg Soskovets has been trying to end the internal debt crisis, without success. On Aug. 17, Soskovets declared, "We must not be afraid of bankruptcies," and said that the state would be tough on companies failing "to make the transition to a market economy." He termed a further drop in industrial production "inevitable," and ruled out measures to protect Russian industry from cheap foreign imports: "We must not be confused by some pseudo-patriotic idea about defending our markets. The state cannot stem the inflow of foreign goods."

But five days later, Soskovets raised the possibility of price controls and lashed out against people "who believe the formation of a market should occur in circumstances of total chaos." By Aug. 25, the government was back to denying it would impose price controls.

Earlier this year, Russia experienced drastic underinvestment in agriculture, as a result of which there will probably be a huge shortfall in the grain harvest. The price of bread has already doubled in the past several weeks, to approximately 700 rubles per kilogram, and is expected to shoot up by the onset of winter to 3,000 rubles (nearly 10% of a monthly pension).

A similar process, the result of a decision to free prices on bread and milk, has taken hold in Belarus, a republic now in the Commonwealth of Independent States. Increases in bread and milk prices there resulted in a decline in production levels of these two staple items. The decline, say officials, is due to the fact that compensation payments, designed to offset the effects of the price increases, had not yet been fully distributed.

Before the latest austerity, the Russian Ministry of Labor had already identified 24 million people, 16.4% of the popu-

lation, as living below the minimum subsistence income. Some 3% of workers, when they are paid, receive less than 61,600 rubles per month, while a monthly market basket of 19 vital food products cost 62,100 rubles.

Strike wave begins

The first strikes broke out in late August, before the end of the summer vacation period. Industry-wide strike threats have appeared simultaneously in all vital sectors of the economy: transport and communications; the steel industry and the metals sector; the energy sector, including coal mines, oil and gas fields, and nuclear power plants; and the military-industrial complex.

The turmoil also threatens to engulf the Armed Forces. Soldiers and officers, as do workers, receive their wages three to four months late. Colonel Deryugin of the Association of Military Sociologists reported in a recent article that officers in the Far East and Transbaikal Military Districts receive enough to cover only 25-30% of their living expenses. The military daily *Krasnaya Zvezda* (*Red Star*) warned that unrest in the Armed Forces can be expected if this continues. In Vladivostok in the Far East, *Rossiiskiy Vesti* reported, officers' families picketed the naval base to demand back pay. *Krasnaya Zvezda* has published letters saying, "We have nothing to lose and are ready for anything."

On Sept. 1, the millions already clamoring for their unpaid back wages—from May on—will be joined by millions of other workers who were sent off on forced, unpaid summer "vacations" and told to report back to work on that date. Strike deadlines of Sept. 1 have been issued by the workforce of the entire Norilsk region in northern Siberia and at two nuclear power stations, in Smolensk and on the Kola Peninsula.

The way out

As presidential candidate Lyndon LaRouche noted in a radio interview on Aug. 31, "The principal implication" of the cordial Kohl-Yeltsin interchange in Berlin that day was "not the withdrawal of the troops, but rather the use of the occasion of the withdrawal of the Russian troops to open up officially, new economic relations between Germany and Russia.

"This is facilitated," he added, "by the fact of the establishment of a kind of pan-Slavic Union, which now includes virtually Belarus, or White Russia, which signifies that the Berlin-to-Moscow railway development project, is probably on as a signal piece. It's a signal project, in which a new development corridor centered on rails from Berlin to Moscow, will be key.

"So, in general," concluded LaRouche, "this is a continuation of the policy which President Clinton announced in Bonn and Berlin during his July visit to Europe. We're fairly optimistic about good things happening, though there are, imminently, very profound changes about to occur inside Russia and Russian policy as such."