

Collapse of Russia's economy reaches point of no return

by Jonathan Tennenbaum

The awesome pace of Russia's economic disintegration has defined this year, 1995, as the *punctum saliens* for the country's future. Either the process of disintegration will be halted by an abrupt change in policy, in the direction of a state-directed mobilization to revive industrial production, or the potential for any future recovery will be irreversibly destroyed. This is the essential conclusion of documents, submitted this month to the Russian State Duma (the national parliament) by expert working groups under the direction of Duma Economic Committee head Sergei Glazyev. The recently released documents fully confirm the evaluations of *EIR*, while providing some valuable additional information which we summarize in this article.

The latest data demonstrate not only a sharp acceleration in the rate of decline of physical output over the last year, but also a qualitative disintegration of the economy, which is rapidly devolving from a technology-based industrial economy into a "Third World"-style supplier of raw materials and "services." But, rather than converging upon some lower, hypothetically stable level, the Russian economy is devolving in an accelerating series of downward "shocks," each one steeper than the preceding one—exactly the type of non-linear collapse process which Lyndon LaRouche described long ago, in his fundamental works on physical economy.

Full extent of collapse is masked

According to Economic Committee estimates, industrial production collapsed overall by 21% in 1994 alone, to less than half the level of 1991. But the full extent of the collapse is masked by the relatively slower disintegration of primary, raw materials-related production compared to the downstream sectors of production. A large part of the raw materials formerly consumed by domestic industry, is now being ex-

ported to earn foreign currency, often at ridiculously low prices.

Thus, for example, light industry collapsed by 47% from 1993 to 1994, dropping to a mere 26% of its 1990 output. In the one year 1994, the output of machine-building and metalworking fell by 40%, chemical and petrochemical production by 30%, construction and materials by 31%, wood and paper by 31%; food processing fell by 21%. By comparison, production of fuels and nonferrous metals collapsed by "only" 11% and 15%, respectively, from 1993 to 1994.

While the relatively smallest decline occurs in raw materials and other export-oriented production, the worst collapse has occurred in the sectors employing the most highly qualified manpower—high technology, science-based industries. Here the decline exceeds 70% in many categories, including machine tool production and construction of machinery for light industry, construction, transport, and agriculture; and communications technology, electronics, and electro-technical equipment.

The dramatic "quantum-jump" contraction of industrial output within a single year, coming on top of the already disastrous collapse of the preceding three years, stands in stark contrast to Russian President Boris Yeltsin's promise of "stabilizing of the economy." And it can in no way be attributed simply to the closing down of military-related production, as some would like to claim. On the contrary, essential categories of durable consumer-goods production are also collapsing: While the production of refrigerators in 1993 was 92% of the 1990 output, it collapsed to 70% by the end of 1994. The manufacture of washing machines had fallen by 1993 to 72% of the 1990 output, but by the end of 1994 it was only 39%. Similarly for other consumer goods, taking 1990 as reference-point:

	1993	1994
Electric vacuum cleaners	83%	35%
Electric irons	86%	31%
Sewing machines	82%	23%
Synthetic detergents	45%	33%
Bath soap	43%	30%
Tape recorders	64%	21%
Radio receivers	49%	18%

The Duma documents characterize the situation in the agricultural sector as a "national emergency." Deliveries of tractors to the agricultural sector have fallen to 17% of the 1990 level, deliveries of combines are down to only 8%, the supply of mineral fertilizers is now 13% of its level in 1990. At the same time, the total land area cultivated has dropped by 12%. The fall of agricultural output itself has been slower, "only" 8% in 1994, compared with a fall of 4% in the preceding year; however, the depletion of machine parts and materials stocks, inadequate fertilizer use, and other factors, add up to a catastrophic collapse in food production further down the line.

Total capital investments in the Russian economy fell by "only" 26% from 1993 to 1994, the largest drop since 1992, when investment dropped by half. The percentage of investment into the productive sector of the economy declined from 60% to 56%. The portion of private investment going to the productive sector is continuously falling, and is now less than a third. Private money is pouring instead into various forms of speculation, foreign currency-denominated nonproductive investments, and outright capital flight. At the same time, an increasing portion of the already-declining state investment into the economy, is being diverted away from the productive sector.

Dramatic fall in scientific investment

The decline in state investment has been particularly dramatic in the domain of scientific research, where the former Soviet Union once rivaled, and in some fields surpassed, the United States. For example, the budget of scientific laboratories of the Russian Academy of Sciences was reduced in the course of 1994 to a mere 5% of what it had been even in 1993! In the context of a recent controversy concerning the activities of speculator George Soros's "International Science Foundation," leading Russian academics declared to the press that, without massive financing from abroad, "science in Russia is finished."

While internal production collapses, foreign goods have been flooding into the Russian market. The share of domestically produced goods as a percentage of total goods purchases on the domestic market, has declined from 79% in 1990 to 51% in 1994, and is projected to decline again rapidly in 1995. The influx of legal and illegal imports, however, by no means fills the gap left by collapsing internal production. On the contrary, per capita consumption has plunged in virtu-

ally every market-basket category, with relative luxury items such as personal computers constituting rare exceptions. Only a tiny percentage of the population has enjoyed a significant increase in personal consumption, while the vast majority is much worse off, materially, than they were in the 1980s under the Soviet system. The income gap between the upper and the lower 10% of the population grew by 11-15 times in the course of 1994 alone. Incomes continue to slide further and further behind the inflation rate, which is officially estimated at about 11% per month, or nearly 350% per year.

The wholesale collapse of living standards in Russia has reached the point that the country is being literally depopulated. In 1994, deaths exceeded births by nearly a million persons! But, the full effects of the 1994 "shock" collapse of living standards and rise in mortality rates will appear after a certain time delay—many of them are already beginning to show up this year. The nutritional level of the population has already fallen below the critical minimum, and health care standards have collapsed. In 1994 alone, the mortality from infectious and parasitical diseases grew by 15%, while the production of essential categories of antibiotics and other medicines fell by more than 70%.

A personal observation

In the context of the above summary, based on documents recently released by the Duma, this author would add the following observation:

According to estimates of some Russian economists, only 40% of an average family income today comes from "official" salaries. The rest is "extra" income derived from buying and selling, odd jobs, and black market activities of the most varied sorts—the sorts of activity known in the black ghettos of the United States as "hustling." Over the last few years, the wholesale looting of the country, and speculation associated with that looting process, has provided a significant source of income trickling down through chains of "service sector" companies and informal channels which have multiplied overnight in the context of the "reform."

For a significant section of the young urban population, as well as others, this income flow has provided a "buffer" against the grim realities of the economic collapse, feeding magical fantasies of an affluent, "yuppie-like" existence as featured in the western movies and soap operas, which form a large part of the Russian television programming. What happens when the stocks of material assets in Russia become depleted, whose liquidation for sale abroad has propped up the flow of "extra" income for an entire section of the population?

One thing is for sure: The response of the Russian elite and the Russian population generally, to the series of violent shocks delivered by the economic collapse process, will be shaped by deeper cultural impulses than a few years of exposure to Hollywood movies and soap operas.