

U.S., Russia must ally against IMF immorality

by Dr. Tatyana Koryagina

Thank you. I would like to add something to what Mr. LaRouche said, about the participation of our Russian and Ukrainian delegation, and that is that we are prepared not only to give you as much information as possible on Russia and Ukraine; but, I should say, we have already received a lot from you, both when we took part in the two-day Schiller Institute conference, and in discussions with your specialists. The first conclusion I reached, which was somewhat unexpected for me, was that, while I thought I would have to paint the very difficult and gloomy picture of the situation in Russia, the data with which we have become acquainted on the United States economy, showed me that the crisis in the United States itself has reached such a magnitude, that, evidently, we in Russia are only halfway to such a condition.

A second important impression: I must tell you, that anti-American attitudes have begun to increase in Russia in recent years, because people link the situation in Russia, with America. But, on the first day of the Schiller Institute conference, I heard a Korean War veteran come to the microphone, and say that the real America was present in that auditorium.

Bush destroyed the United States. This we understand, because we were destroyed not only by Bush, but also by Margaret Thatcher, and they were also helped by Helmut Kohl. Therefore, in reality, there is no basis for disputes between the American and the Russian peoples. In fact, we face a common task. And, this common task is not only economic and political but, I believe it is, above all, a moral task. Because immoral people should not really be allowed to govern nations. And, immoral people cannot be economic scientists.

I remember reading in one textbook, the conversation of Malthus with the poet Carlyle. Malthus was presenting his theory on the overpopulation of the Earth. Carlyle exclaimed, "I never knew economics was such a gloomy science!" Today, at the end of the twentieth century, we could add something: It's hard to believe that economists could deliberately incorporate into their economic theories a gloomy way of life, wherein drug addiction, crime, corruption, homosexuality, treachery, and so forth, are accepted as natural.

I think that it's very important now to unite our efforts,

in view of the breadth and difficulty of the problems we have to solve.

The reformers are mentally ill

Now, let me make two more small observations on the question of insanity. Evidently it's not widely known, here in America, that people were recruited to implement the reforms in Russia, who were simply mentally ill. There have been reports published in the press, that both Yegor Gaidar and Grigori Yavlinsky spent time in mental institutions. What, then, could one expect from Yegor Gaidar, if his line of thinking was something like this? At the end of 1991, just before the beginning of shock therapy, he said, "We need to jump across the abyss." And, as his opponent in a debate, I replied: "You can't jump across an abyss. If you know that there's an abyss ahead, you should try to circumvent it. There could be some little bridge already built across the abyss!" It's very dangerous, but there are emergency situations, where you have to cross by such a little bridge. But, to presume that you're going to jump across the abyss, is insanity.

It's very interesting that Mr. LaRouche, if you recall, in his speeches has also employed this comparison, as a metaphor, with a leap across an abyss. This shows that the thinking of sane people is appropriate, while crazy people often use the same image, of a leap across the abyss. It was with this sort of philosophy and mind-set, that they launched the shock reforms in 1992.

We can say that, from the standpoint of theory, economic science in Russia was not prepared to criticize and refute the ideas of Milton Friedman. The lack of information made it impossible, for example, for us to make a critical analysis of the experience of South America or eastern Europe. It took many of my colleagues the last five years, this whole period, to understand what a very small group of economists was saying already in 1989 and 1990, when they proposed a different paradigm, an alternative to the monetarist theory.

The word 'democrat' is now a curse word

I myself lived through that period. Just days after Grigori Yavlinsky published the "500 Days" program, I criticized it very harshly, both from a theoretical standpoint, and respecting its prognostication of the type of changes that would occur in the economy. At that time, in the summer of 1990, I announced that the word "democrat"—and I was among the democrats—would become a curseword in Russia, and that it would be a terrible thing, to say in political circles that you're a democrat. Many of my colleagues, who had been on good terms with me, felt sorry for me. The democrats really sneered at me. But, today things are exactly as I said: The word "democrat" is a negative identification for a politician. This is unfortunate, because the people who are defending the people's interests, the interests of the majority, are really the democrats.

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“A year ago, I was in Siberia, in Altai. Local people told me about an incident a few days earlier, when a crowd had caught somebody who looked like Gaidar, and they wanted to beat him up. At first, he didn’t know what the problem was. When he realized it, he tore himself away from the people, and ran down the street shouting, ‘I am not Gaidar! I am not Gaidar!’ ” Above: former Russian Deputy Prime Minister Yegor Gaidar, at the White House after meeting President George Bush in April 1992. His reforms led to the proliferation of street vendors, as well as the criminalization of the economy.

me about an incident a few days earlier, when a crowd had caught somebody who looked like Gaidar, and they wanted to beat him up. At first, he didn’t know what the problem was. When he realized it, he tore himself away from the people, and ran down the street shouting, “I am not Gaidar! I am not Gaidar!” The attachment of intense feelings of that sort, to somebody’s political identification as a democrat, unfortunately, is also observed in the rural areas of Russia.

In 1993-94, agricultural enterprises had to pay the interest on their bank loans, in kind, with cattle. Huge herds of cattle were driven to the slaughterhouses. They died along the roadside, due to congestion. So many cattle were slaughtered, that there was not enough room in the refrigeration units to store the meat. The refrigerator warehouses were overflowing already, at that time, because people didn’t have enough money to buy meat. Milk was poured into the ditches. A cow does have to be milked every day. Despite such enormous losses, virtually all the agricultural enterprises remained in debt to the banks.

Thus, when I cite statistics, you have to have an image of this in real life: What is actually happening, behind each statistic, what’s happening with production, and what’s happening to the people.

Now, let me speak more theoretically, as an economist. Beginning with the Gaidar team, the Russian government proclaimed a notion that financial stabilization of the national

economy must be achieved, and that financial stabilization will occur when the inflation rate has reached approximately 25 to 30%. Some years ago, that seemed almost unachievable, because in 1992, annual inflation was 2,600% on the consumer market, and 3,300% on the wholesale market. In 1993, inflation on the consumer market was 1,500%. Against the backdrop of this enormous inflation, the collapse of production began.

In 1996, inflation was 22%; the Russian government achieved the unachievable. But, what do we see?

Instead of the potential economic growth, there was a further deepening of the economic crisis, the collapse of production, even by comparison with 1995. While earlier, in the 1992-94 period, we spoke about the crisis of an inflationary economy, in 1995-96, it became a debt crisis, a debt economy. In that respect, we’ve now taken a path similar to what goes on in America. The American economy is a pronounced debt economy. Precisely with the achievement of a lower level of inflation, there has been the onset of the gravest consequences for the destruction of the economic base.

While consumption and production of consumer goods has fallen not quite as much, a much bigger collapse occurred in the sectors that produce the means of production. By 1995, we had already experienced an almost twofold decline of production in some sectors, yet the decline continued in 1996.

I shall cite some figures. In the textile industry: 1995 pro-

duction of textiles, compared with 1990, already showed a drop by 85%. In 1996, there was a further decline by 18% [from the lower level].

There are many economists in the audience, and you understand that low inflation, a lack of money, and a huge volume of non-payments, are precisely the conditions for a potential total collapse, in which there is a complete shutdown of production. An economy with such significantly smaller volumes of production is a shagreen leather economy, an economy shrinking like shagreen leather. It prevents the enterprises from obtaining sufficient financial resources. We have had a large, and abrupt, increase in the number of loss-making enterprises.

Large increase in loss-making enterprises

In 1995, twenty percent of our firms were loss-making. In 1996, it was already 40%. In agriculture, the increase in the number of loss-making enterprises is the following: in 1994, already 59%; in 1996, 60 to 62%. Behind those figures, are the slaughtered cattle, the destruction of farms, and almost total unemployment.

If we look at the unemployment statistics in Russia, officially, things don't look so bad. We have a little over 70 million potential members of the labor force, and an unemployment level of around 7 million. In the rural areas, they count as employed, some people who sometimes receive no wages in an entire year, because they have no markets on which to sell what they've produced, because the crisis which the monetary system caused in the economy, was accompanied by an absolutely scoundrelly policy toward our domestic producers. The domestic market has been flooded by imports.

The overall share of imports on the consumer goods market is more than half, somewhere around 52%. But in the big cities, such as Moscow, where I live, that figure is around 80%. If tomorrow there were a panic on the currency markets—all these imports are paid for with foreign currency—the shops would be empty overnight. What's in the stores is relatively expensive, and people who are in private business in commerce, have very great difficulties. Therefore, inventory levels are low. The merchants minimize their risk, by purchasing no more goods than they immediately need.

In our studies, we consider the private retail sector to be already bankrupt. Only those firms will survive, where the retail network is used for money-laundering by the mafia. Such firms don't actually need to be buying and selling; they need only to look as if they are. If they're getting black-market cash from narcotics every day or every week, they pass it off as the receipts from goods sold.

In discussions here about the criminal economy and the narco-mafia, we were briefed on the "pizza connection"—drug money-laundering through pizzerias. I told our American colleagues, "We have a lot of pizzerias in Moscow, too!" As well as McDonald's. Moscow has become a laundromat.

In addition, I'd like to discuss the following question. I

have a huge quantity of statistics, but I understand there will be a discussion format today, with time for questions and answers. I can continue my academic lecture, presenting figures; or, I can mention these same statistics, in the framework of what is of particular interest to you. Please choose.

[laughter; translator: "I think it's up to you."]

If it's up to me, I'm also a creative person: I'm going to combine both approaches. Therefore, let me now continue the story about the events which took place in the social sphere. This means, first of all, what happened with the standard of living, and the criminalization of the economy. These are closely connected areas, because what the population does not receive, the mafia does. The people and the mafia are communicating vessels in a circulatory system. The great wealth of the people flows to narrow mafia groups.

Our Russian statistics are trickiest, about the standard of living. If we go by official data, things are not so bad in Russia. Last year, they did acknowledge a 15% decline in the real income of the population [for 1995], which was a big drop, but for 1996, they registered 5% growth. In reality, there was a decline of at least 6%, according to independent scientific estimates.

It's probably hard for you to imagine, that people could work for months, and not receive their wages. The nominal average wage in Russia, at the end of 1996, was 800,000 rubles per month, which is approximately \$160. That's a lot higher than in Ukraine; Natalya [Vitrenko] will tell you, how much worse things are in Ukraine.

That is, however, the recorded wage. But people don't receive it. The government's arrears in wage payments grew unbelievably during 1996, even though this was an election year. The Yeltsin team, as against the alternative economic program proposed by our group, kept assuring people, that now there would be no more arrears in the economy, that all the back wages and pensions would be paid as soon as Yeltsin were re-elected.

Let me give you some figures for the economy as a whole, and by sector, on the sums of money not received by our population.

Wage arrears in the trillions

As of Jan. 20, 1996, total wage arrears were approximately 21 trillion rubles [about \$4.2 billion]. On Dec. 20, 1996, they were 47 trillion rubles. In order to understand the orders of magnitude, note that when the budget is under discussion, there are battles for 500 billion, or 1 trillion rubles. If some sector demands an additional trillion rubles, the relevant deputies in the State Duma are denounced as wreckers of the economy, because the Russian economy cannot take such increases in spending from the budget. The officials cannot tolerate a 1 trillion ruble increase in the budgeted spending. The population, however, is shorted 47 trillion rubles in one year!

Look at the distribution of these arrears by sector of the

economy. In industry, arrears doubled from 11 trillion to 22 trillion rubles; in agriculture, from 3 trillion to 6 trillion rubles; in education, from 1.4 trillion to 4.5 trillion; in health care, from 800 billion rubles to 2.6 trillion; and, in science, there were no arrears at the beginning of the year, but by the end of the year, arrears were 1.1 trillion rubles.

Here, I must tell you about another trick. The institute where I work, is a government institution under the Ministry of Economics, which does macroeconomic studies. In the Soviet Union, there were nine research institutes under the Gosplan, of which only two remain. Last autumn, most of the staff of our institute had to take unpaid leave. In the winter, we were suddenly supposed to get the itch to go on vacation. But the fact that we did not receive our pay, was not counted as part of that 1.1 trillion rubles arrears in science sector wages. We were “on leave.”

For the first time last year, there were hunger strikes by members of the Academy of Sciences. Political hunger strikes. Another member of the Academy, the director of a nuclear center, shot himself to death. Many leaders of scientific institutions have begun to die of heart attacks and strokes.

These arrears take place against the backdrop of a wage level that's very low to start with. The R 800,000 monthly wage figure I gave you, was the average. Let me exhaust you a little more, with the average wages, broken down by sector. In the electric power sector, the average worker earned 1.6 million rubles per month—about \$300. In the fuel sector, 1.9 million rubles per month; 2.2 million rubles per month in the oil industry; in the natural gas industry, 3 million rubles—approximately \$600 a month. These are the industrial sectors of our Prime Minister Chernomyrdin, the sectors with the highest wage levels.

But, at the same time, in machine building, the wage level has declined to 600,000 rubles, in light industry, it is 400,000 rubles per month. In agriculture, 350,000. This is, you see again, the nominal wage—350,000 rubles, in the rural areas. And even that, is not paid.

What do people do, under these conditions? We have absolutely informal economic relations, which we study in the framework of the black economy. Part of this is quite ordinary economic activity. But it has taken on such a scale, that the statistics agencies do not capture it. These are small-scale services, which people provide for each other. To pay even for modest services, however, requires money. Thus, most of the families in rural areas have slashed their household consumption drastically.

In the last period of Soviet power, there used to be two or three hogs raised per family. It became difficult to feed and raise them, so the average fell to one hog per family. That was in 1995. But, as of 1996, we began to observe that that hog was not slaughtered for the family's own consumption, but was taken to market in the city, for sale at dumping prices. The peasants were forced to do this, to buy a notebook for a child in school, or medicine. You do have to buy some items.

The ‘benign’ and illegal shadow economy

We also have a pronounced division of our economy into one economy for the wealthy, and one for everybody else. Those who derived honest income in the black economy, received it from providing services for the wealthy. This is the approximately 20% of the shadow economy, which we call “benign.”

The other 80%, is economic activity that involves violation of the law. Approximately 25% comprises economic crimes in which income was concealed from the state. Individuals conceal their revenues. Some 45%, and growing rapidly, is the out-and-out criminal sector.

We estimated that, in 1995, the black economy was equal to 45% of GDP, which, in absolute figures, is in the range of 375 trillion rubles. So, 375 trillion rubles is the criminal economy. These funds circulate within a closed curve, which encompasses the entire illegal narcotics turnover, the black market in weapons, and the phenomenon of hired killers. Counting only confirmed cases of contract killings, chiefly of bankers, around 600 people have died in this way. It also involves kidnapping, and then a very horrible type of crime, which I have studied, namely the kidnapping of people for purposes of harvesting their organs. There is a black market in surgery: kidney transplant surgery, hearts, blood, and so forth. There were instances of this during the war in Chechnya, when the corpses of soldiers were found with the organs already removed.

These processes suck dry an economy that is already sick, and undermined. Without understanding this additional, criminal side, it would be impossible to elaborate means to overcome this super-crisis, especially if this were being done for Russia alone.

It's obvious, for example, that the Ukrainian mafia comes to Russia, or that narcotics from Tajikistan pass through Russia in transit to the Baltic states. There's criminal economic transshipment to the West, as well.

Our “Yaponchik” [Russian mafioso Vyacheslav Ivankov arrested by the U.S. FBI in June 1995], compared with these real criminals, is, shall we say, an innocent kid, who perhaps was jailed just *pro forma*. He was a major criminal kingpin, but he extorted money from Russian thieves, with the intention of returning the proceeds to Russia. This involved the interests of depositors in the Chara bank, among whom were artists and their organizations. So, in fact, Yaponchik was performing a “noble deed” for our artists; and American law enforcement, which arrested him, prevented him from sending the money back to Russia.

There has been a lot of discussion about the Russian mafia. The real mafia does exist, on a significant scale, in the United States. As a rule, these are respectable gentlemen, and very rich ones. It would be difficult for you to recognize them, from just seeing them. This requires very detailed, joint work by the law enforcement systems of the United States and Russia. This is the biggest danger.