

Russia balks at International Monetary Fund shock therapy

by Konstantin George

On Dec. 9, the last day of the Russian Congress of People's Deputies session, the Congress refused to confirm Yegor Gaidar, the executioner of the International Monetary Fund's (IMF) "shock therapy" measures that have devastated the Russian economy over the past year, as President Boris Yeltsin's choice to become prime minister. Gaidar failed to gain the needed majority of 521 votes, receiving only 467. The vote does not mean, however, that Gaidar will be ousted from his current post of acting prime minister. The day after the vote, Yeltsin, accusing parliament of staging "a creeping coup," called for a referendum in January to decide whether he, or parliament, will have the power to select and install the prime minister and cabinet.

The January referendum, if successful, is seen as establishing a presidial system, as a forerunner to Yeltsin dissolving the present Congress of People's Deputies and the standing parliament, or Supreme Soviet, and as a prelude for national parliamentary elections in the spring. The evidence buttressing this prospect emerged immediately after Yeltsin spoke, when Ruslan Khasbulatov, head of the Supreme Soviet, declared that he will be resigning in protest over the Yeltsin announcement.

After the January referendum, under Russian law, President Yeltsin has the power to have Gaidar continue for another three months as acting prime minister, which would postpone the final showdown on the Gaidar question until as late as April, when the next Congress is scheduled to convene. Under this formula, Yeltsin has gained a winter breathing space. It should be recalled that Yeltsin opened the Congress on Dec. 1 with a call for a "breathing space of one and a half years," and his Dec. 10 referendum call reflects his intention to postpone the date of reckoning on Gaidar for as long as possible. However, any postponement will not change the fact that the Congress vote, not in its own right, but given the powerful forces in the country it reflects, has sealed Gaidar's ultimate fate, because neither he nor the crude shock therapy policy that has become synonymous with his name will survive the year 1993.

The winter compromise

The delay in the vote on Gaidar until the final day of the nine-day Congress reflected a behind-the-scenes compro-

mise agreement, worked out in the days prior to the vote, between Yeltsin and the parliament's Centrist Bloc of the industry lobby organization Civic Union, led by Russian Vice President Aleksandr Rutskoy and Arkady Volsky. In exchange for delaying the showdown on Gaidar, the shock therapy policies are to be considerably watered down, and the present Gaidar cabinet will undergo successive purges over the next three months, removing singly, or in small groups, most of his key underlings, or those who are otherwise deemed synonymous with Russian capitulation to western financiers' dictates.

Gaidar himself, in remarks to the Congress on Dec. 9, conceded as much, when for the first time he spoke of the need for "cabinet renewal," and promised that while an unspecified "core" would be maintained, "considerable changes" in cabinet personnel were coming. He also repeated the promised policy, first spelled out in a late November speech to industrial directors from the Urals, and shortly before the Congress confirmed by Yeltsin in a Nov. 23 meeting with the Russian Defense Council, that 1993 military procurement would increase by 10%, meaning a significant increase in state orders to the military industry sector. Gaidar also promised that arms exports will significantly increase, and that state credits to industry to prevent plant closures and mass unemployment will continue through 1993. Gaidar then announced, though giving no details, a "state investment program" to "stimulate the economy."

Other parts of this compromise were revealed on the morning of Dec. 8, when Yeltsin appeared at the Congress session and announced that he was willing to give "the last word" on who would occupy the posts of foreign minister, defense minister, interior minister, and security minister to the Supreme Soviet, or standing parliament. The significance of this statement is that the holders of those posts are all members of the Russian Security Council, the most powerful executive body in the country, and are certain to be agreed to by the parliament. By the same token, Yeltsin's move has sealed the fate of Foreign Minister Andrei Kozyrev, whom the opposition has insisted on removing on grounds that he has been selling out Russia to western interests.

Confirmation of this deal came the day before Yeltsin appeared with his compromise offer, when a Rutskoy aide,

Andrei Fyodorov, declared that the opposition "may possibly accept Gaidar" if agreement were reached on removing Gaidar supporters from the cabinet. Fyodorov stated that the purge should begin with the removal of two liberal deputy prime ministers, Aleksandr Shokhin and Valery Makharadze, and of Foreign Minister Kozyrev. Beyond that, it was clear throughout the Congress session that the opposition had agreed from the outset on allowing a three-month extension for Gaidar, since, despite all the noise and anger, no force, including the Civic Union, had proposed any alternate candidate for prime minister. Indeed, leaders of the Civic Union, such as Volsky and the group's leading man in the cabinet, First Deputy Prime Minister Vladimir Shumeiko, publicly refused to place themselves as candidates for the post.

Last phase of 'realpolitik'

Two crucial considerations led the Centrist Bloc to agree to tolerate Gaidar through the winter. These were, first, an agreement under which the shock therapy policies are to be significantly watered down, through keeping continued state credits, industry, and above all, the vital military industry intact, and thus averting mass unemployment. But it was the second consideration, namely, preserving, at least through the winter, a policy of *realpolitik* toward the IMF and western creditors, that proved to be decisive in the compromise reached.

What was that concretely? Not by coincidence, on Dec. 1, the same day the Congress began, Russia also started talks with its western bank creditors, a group of 600 banks, nominally headed by Deutsche Bank of Germany. Russia did not get what it wanted, which was a comprehensive debt rescheduling agreement. What it got was an agreement, made public in Frankfurt on Dec. 3, whereby Russia is allowed to continue its suspension of all debt principal repayments for both the fourth quarter 1992, and through March 31, 1993—i.e., till the end of the first quarter 1993. Again, not coincidentally, this extension conforms to the three-month minimal extension given to Gaidar.

The "clever" Russian intention is now to use these three months, holding up Gaidar as the "proof" that the "reforms" are on course, to arrive at a comprehensive debt rescheduling agreement. This was all but admitted on Dec. 7 by Boris Nemtsov, governor of the Nizhni-Novgorod region, who warned on Russian television that the "fall of Gaidar" would undermine Russia's efforts to have its debts rescheduled.

The outcome ensured by this *realpolitik*, sticking to the IMF-directed "rules of the game" by which no nation can ever "win," is doubly tragic. The compromise deal was, in the end, supported by the leadership of the Civic Union Centrist Bloc of deputies, namely Vice President Rutskoy, and Civic Union head Volsky, a leadership who had no illusions concerning the vicious intentions of the IMF and the Anglo-American-led western powers behind it.

Rutskoy denounces IMF

In his Dec. 2 address to the Congress, Rutskoy showed just how well aware he is of the IMF's evil intentions, by delivering the strongest denunciation to date of the IMF by any Russian leader. He demanded that Russia reject the "dictates and recommendations" of the IMF and "return to regulation and guidance of the economy" by the state. He told those assembled that Russia had better realize that the western powers controlling the IMF are acting "in their own interest," which is emphatically opposed to a Russian economic recovery. In short, the IMF, by name, was accused, quite correctly, of pursuing policies meant to weaken and destabilize Russia.

Rutskoy, in an early December article in the widely read weekly *Argumenty i Fakty*, also demanded a comprehensive state program to end Russian food dependency on the West. The main elements of the Rutskoy program were:

- A crash state program to construct storage and transport facilities to reduce annual harvest losses from the current 30-40%, down to 20%, saving \$8 billion in annual food imports.
- A state fund of generous long-term credits for purchase of the capital equipment and other means required for someone to become a private farmer. Rutskoy estimated the cost as "30 million rubles per farmer" under present hyperinflation or a real, pre-hyperinflation cost of roughly 300,000 rubles per farmer.
- Expanding rural electrification and rural gas lines to all villages and farms.
- A state-guaranteed fair price for farm produce, higher than the costs of production. Under the Gaidar shock therapy hyperinflation, the prices in industry and energy have risen much faster than farm produce, threatening large parts of the state and collective farm sector with bankruptcy and preventing in advance any successful farm privatization.

● Rutskoy stressed that once food imports can be drastically reduced, Russia can utilize foreign exchange earnings for the import of western machinery and equipment to modernize its industry, as the basis for a true economic recovery.

But if Gaidar's forces are so clear about the suicidal dangers of following IMF shock therapy, why, then, did they attempt to reach a compromise? The arrangement was struck because neither the Centrist Bloc nor any other members of the opposition have yet to field a figure of national stature. This leaves Yeltsin as the only such figure. But by the same token, the fresh arrangement depends on the person of Yeltsin, as the presently irreplaceable figure of national stature on the Russian scene. Should anything happen to him, health- or otherwise, Russia will immediately plunge into a dangerous, incalculable destabilization. But beyond the short term, Yeltsin factor or not, the crisis will again inexorably come to a head. Despite the watered-down monetarist policy, the lack of a genuine national economic development program will emerge in the coming months as the Achilles' heel of the present arrangement.