Its economy ‘critical,’ Russia gets a new government

by Rachel Douglas

Driving the political crisis in Russia, which has gone for a month and a day with only an acting government, is its economic depression, worsened by the acute financial crisis since the world financial shock of late 1997 hit Moscow. President Boris Yeltsin has presented Sergei Kiriyenko to the country as a young “technocrat,” who as premier will straighten out the machinery of state and the economy. But, promises made by Kiriyenko in negotiations with the International Monetary Fund (IMF), behind closed doors, would guarantee further economic destruction and new crises.

When the State Duma (parliament) voted on April 24 to approve Kiriyenko, having rejected him in two earlier votes, the specter of dissolution of the Duma, Yeltsin ruling by decree with Kiriyenko as acting premier, and the bankruptcy of the country, loomed over the proceedings. State Duma Speaker Gennadi Seleznyov and former Prime Minister Viktor Chernomyrdin even questioned whether the state could come up with the cash to pay for a parliamentary election. Seleznyov suggested the 2 billion rubles ($325 million) would better be spent on teachers’ and soldiers’ salaries. Chernomyrdin, interviewed in Kommersant Daily on April 21, said that Russia had suffered such financial losses from the Asia crisis and collapse of oil prices that, “if we launch one more [election] campaign, we’ll be unable to do anything else until next year.”

In his own address to the State Duma on April 10, the day of the first vote, Kiriyenko adopted the approach of “telling it like it is” about the ravages of the financial crisis and recent Russian policies. He gainsaid the claims by government officials in recent months, that growth of so-called Gross Domestic Product had resumed in 1997 and that the impact of the world financial crisis upon Russia was contained. “Growth of GDP has come to a halt,” said Kiriyenko. It “was exactly zero in March.” He said that the plunge of world prices for oil and other raw materials exports had put the squeeze on the finances of the Russian state, while the Central Bank’s increase of interest rates, a decision made in order to keep investors in the Russian GKO (treasury bill) market, had increased budget spending by 20 billion rubles ($3.3 billion). Now, 30% of government budget spending goes for domestic and external debt service.

By April 13, three weeks after Yeltsin dismissed the previous government, the Moscow stock market had fallen by 10% and yields on GKOs (short-term state bonds) rose above 30% again. In February, former finance boss Anatoli Chubais had claimed that those rates were below 28% to stay. The 1998 budget presumes 25% interest rates on GKOs.

The strain of the economic slump on Russian society was “critical,” Kiriyenko admitted to the Duma. One-fourth of the population, or 32 million people, receive less than the “subsistence level” of income. The government owes 82 billion rubles for back wages and other internal debts. This is before the full impact of the above-cited aggravating events hits, “in the second half of this year.”

Kiriyenko’s plans

As for his planned policies, Kiriyenko talked about revitalizing industry — “without it there are no budget revenues, and that means no budget” — by means of low-interest lending, and hinted at protectionist measures to reduce the share of imports in domestic consumption from the 40-50% range, to 15-20%. That would imply huge changes in Russia’s radical liberalization, but, in that same April 10 speech, Kiriyenko also said he hoped to satisfy IMF conditions for releasing its credit line to Russia, by demonstrating a will to collect taxes better and to slash budget spending through energy conservation.

Three days before the decisive third vote, Kommersant Daily exposed what it said was the secret “plan of primary measures by the government, in the tax and budget sphere,” a set of commitments to the IMF by Kiriyenko. Though his tactics “are not to promise anything concrete,” behind this facade, charged journalist Andrei Bagrov, Kiriyenko has actually “decided everything.” Failure to implement the plan, suggested Bagrov, means that “Russia will receive no more financial assistance from the IMF.”

Besides a very generally worded letter of intent, signed by Kiriyenko, Central Bank chief Sergei Dubinin, and the IMF on April 11, reports Bagrov, the acting government promised to implement a still-secret list of severe austerity
measures, including sharp reduction in the number of state-
paid employees; raising fees for gasoline for individual users;
harsh measures against delinquents, including oil-extracting
companies (those of them that have debts to the state budget
will lose access to export oil pipelines); decreasing import
duties for goods having no Russian analogues, and so on.

In an interview with journalist John Helmer, versions of
which were published in the Journal of Commerce and the
Moscow Tribune on April 17, economist Sergei Glazyev,
head of the Department of Information and Analysis of the
Federation Council, blasted the IMF’s current negotiations
with the acting Russian government as “illegal,” because
the spending cuts and other conditionalities violate laws duly
passed by the Russian legislature. The authority of Kiriyenko
and Dubinin to commit Moscow to those terms, just 24
hours after Kiriyenko’s first rejection by the Duma, is also
in question. IMF spokesman Graham Newman told Helmer,
“I believe Yeltsin is still the President of Russia, and if
he designated someone [to sign], then the legal authority
existed.” The Russian President, however, has denounced
as “a provocation or an invention,” the large public-sector
job cuts to which the letter evidently commits Russia.

Sources report that Kiriyenko’s signing of these docu-
ments, in order to please the IMF, was the topic of much
discussion in the State Duma before the last vote.

**No funds for Army salaries**

The latest reports from the military sector, point to the
potential social turmoil, to which further economic collapse
will lead. On April 15, the State Duma overrode Yeltsin’s
veto of a law raising the wages of troops and officers in the
Russian armed services. Yeltsin acted because the 52 billion
rubles ($8.5 billion) over two years, mandated by the law,
is not in the 1998 federal budget, which is closely calibrated
with the conditionalities for IMF lending. If the Federation
Council also overrides, Yeltsin will be required to sign the
law, but Itar-TASS reported that acting Defense Minister
Igor Sergeyev doubts the money can be found in any event.
Sergeyev said the priority should be to pay the 11.4 billion
rubles ($1.9 billion) in current wage arrears to the military.

In Nezavisimaya Gazeta of April 17, under the headline
“Army May Go Out of Control,” Vladimir Mukhin wrote that
young officers are fleeing the military at a high rate, unable
to cope with the lack of pay and other miserable conditions.
The average age of retirement for commissioned and warrant
officers in 1992-97 was 37. As a result, there is “an acute
shortage” in the middle of the officer corps, the levels that
work directly with the troops. Mukhin quoted Gen. Col. Ilya
Panin, chief of the Main Personnel Directorate of the Russian
Defense Ministry, who told an April 16 press conference that
nearly one-third of the posts of platoon and crew command-
ers, and deputy commanders of companies and batteries, are
vacant.

**Italy’s choice: EMU or New Bretton Woods**

by Claudio Celani

Following the visit of Lyndon LaRouche to Italy at the begin-
nning of April, the Italian government at its highest level offi-
cially endorsed the idea of a New Bretton Woods. Although
not acknowledging LaRouche’s “copyright” on the idea,
the Italian government statements reflect the impact of
LaRouche’s week-long visit, and especially his discussions
with members of Parliament, on the necessity of a reform of
the international monetary system.

Thus, during a state visit to Argentina, when Italian Prime
Minister Romano Prodi was asked by EIR correspondent
Gonzalo Huertas whether he thought the April 16 G-22 meet-
ing would deal with the proposal for a New Bretton Woods,
Prodi answered:

“I personally believe that we must move toward a New
Bretton Woods. And this has to be analyzed very carefully,
because the risk level in the international monetary system
has greatly increased in the recent period. But it is an issue
that can be touched upon at this meeting. It has to be the object
of a very serious analysis; it is not something that is going to
be done at this moment.”

More interesting than Prodi’s statements, which do not
specify what the “New Bretton Woods” should be, are views
expressed almost at the same time by Italian Foreign Minister
Lamberto Dini, who became the first Western government
official to push for “bankruptcy reorganization.” (Putting the
entire financial system through “Chapter 11” bankruptcy pro-
cedures is key element of LaRouche’s approach to the current
financial collapse.)

Dini, a former International Monetary Fund (IMF) official
and central bank director, criticized the IMF “bailout” ap-
proach to the Asian crisis. In an interview with the daily La
Repubblica on April 6, he said: “We cannot hide it, there is
something wrong. You cannot give investors the impression
that, if the investment fails, there will be a supranational body
coming in, with taxpayers’ money. A moral hazard has been
created, and we must temper it by introducing a sort of interna-
tional bankruptcy court, to establish the principle that credi-
tors pay for failures and that an investment has a risk factor.
Like with private firms: When one goes bankrupt, you list up
the creditors, you maybe reach an agreement, but you never
recover the last cent.”