
Interview: Sergei Glazyev

Russia needs productive investment, not the stupid approach of the IMF

Mr. Glazyev is the head of the Economic Affairs Committee of the Russian State Duma. Michael Vitt and Michael Liebig interviewed him in Moscow on Nov. 4.

EIR: Do you think that the International Monetary Fund-dictated state budget submitted by the Chernomyrdin government will lead not only to further delays in the payment of back wages, and more unemployment, but also to social unrest and strikes?

Glazyev: The problem is not only the budget as such, which, as you explained, was formulated with the IMF's assistance. The problem lies with the economic-financial forecast on which this budget is based. The 1995 budget and the forecast for Russia's economic performance in 1995 are based on two presumptions: First, the decline of production in Russia will continue. There is a simple extrapolation, according to which the decline of industrial production in Russia will be 10%, including a decline in machine-building production of 15-20%. If you compare these figures with those of 1990, the decline of industrial production will be about 60%, and the decline in the machine-building sector will be about 75%! That means that the future of Russian industry is disappearing. It is completely impossible to assume that under conditions of a 65% decline of industrial production since 1990, unemployment will grow to just about 5 million people. Unemployment will be much higher. According to our estimates, if these trends continue, unemployment in Russia will be three or four times higher, which means some 20 million people.

The second point concerning this budget, is the idea of so-called "non-inflationary" ways to finance the budget deficit. The government proposed to issue government bonds of 43 billion rubles and to increase foreign debt by \$12 billion. What does this mean? As concerns government bonds, a large portion of this will be *short-term* obligations, which necessitate short-term refinancing. So the Ministry of Finance is proposing a classical pyramid expansion of state debt, which will lead to the bankruptcy of our state finances in 1996.

EIR: And further contribute to hyperinflation.

Glazyev: Of course. There will be no government revenues to finance and to support these government bonds. If you look at the present practice of the government, so-called Treasury notes are used to pay for government procurements.

The companies that get these government checks can use these same checks for paying their taxes. Or they use them to pay their suppliers, but the suppliers in turn can use them only for paying taxes to the state. It's the same as the issuing of money. *There is a key question here: How will these Treasury notes be used?* If they will be used in the same way they are used now, it means just another form of money creation, nothing more. It will mean that the total state debt will be around 100 trillion rubles in 1996, and it will be completely impossible for this government to service this debt in 1996.

As to the second part, on the financing of the budget deficit, the \$12 billion of new foreign debt is most dangerous. If we use this approach, in 1996 we shall increase our foreign debt to \$130 billion. The Russian economy would go on a track where the gap between government revenues and the foreign debt service requirements widens vastly. It means that we are going into a vicious circle. Russia will not be in a position to service the debt by paying off the principal, just as was the case with some Third World countries in the 1970s.

EIR: Doesn't the IMF intend to use this budget to shut down allegedly "unprofitable" state enterprises, by cutting down budget allocation for them? From what we understand from Mr. Chernomyrdin's speech when he submitted the budget, the financial resources for large state enterprises are to be significantly reduced. Reportedly, some 4,000 plants may be closed down. What is your estimate of the social unrest that could arise out of this?

Glazyev: There is nothing about this in the budget, [except] maybe implicitly. Nobody knows how many companies will be closed down. There is some speculation. You can look at what the government proposes, and there are no explicit figures. The only concrete figure concerns the expenditures for the closing of mines.

My estimate is that this budget will probably not be as strict as it was announced. The measures to finance the budget deficit are unrealistic, speculative, and risky. If we use these means of financing, we are going into a profound domestic financial crisis in 1996, as well as a foreign debt crisis.

EIR: Do you think that even before 1996, a social eruption or a strike wave might occur?

Glazyev: It could happen. But, this is not the key problem of the budget; it is the key problem of Russia's *economic policy*. I cannot imagine how the machine-building sector, for example, is supposed to function at about 25% of its capacity. There are no calculations yet of how many companies will have to close. But it's absolutely clear that if industrial production declines by 65% in comparison to 1990, and most of this decline happens in 1994 and 1995, large numbers of enterprises will have to close down. In the machine-building sector, where the production decline is some 75%, even more companies would have to be closed down, or at least a large capacity of these companies would be scrapped. I fear, if we go on along this track, the rate of decline of production could be even worse. And there is no money in the budget for maintaining employment.

EIR: Concerning ways to stimulate or revitalize production in Russia, what is your opinion of Lyndon LaRouche's 1990 "Productive Triangle" program? It foresees that in both eastern and western Europe, a major infrastructure-building effort should be undertaken, which includes high-speed rail lines from western Europe to Russia, and from Russia to the new economic center in Southeast Asia and India. You probably know that key elements of this LaRouche program have been incorporated into [European Commission President] Jacques Delors's *White Paper*, which features "Trans-European Networks" of high-speed rail lines. Do you think that such an approach could stimulate physical economic reconstruction in Russia?

Glazyev: It depends on the extent to which this economic plan will stimulate the demand of companies in Russia. If the project will include Russian supplies on a grand scale, then of course it will be a *locomotive for growth in Russia*. If it will be based mainly on the supply from western companies, the effect will be miserable. You can see that, for example, in the field of oil production by American companies operating in Russia. I know of one American oil company in western Siberia, where the Americans bring in everything from the United States, including machinery and equipment, housing materials, food, even ice cream. And, the Americans there get wages which are five times higher than the Russians who are doing the same job.

EIR: The "Productive Triangle" proposal explicitly aims at activating the productive potential *within* Russia. Mr. LaRouche is particularly thinking of key elements of the capacity of the military-industrial complex. For advanced high-speed rail like magnetic levitation, for example.

But, there is naturally the problem of how to finance these infrastructure projects in Russia. That leads us to the next question. What do you think about the Hamiltonian national banking approach, by which the state generates credit, under the strictest conditionality, that it be exclusively used for advanced technology and advanced infrastructure projects?

Glazyev: I think we should do this. In the program which we elaborated for the Russian economy, we propose the establishment of special "development institutions" or "investment corporations" [see *EIR*, Nov. 4, 1994, p. 48]. We envisage Banks for Reconstruction and Development through which there will be long-term, low-interest credit for large-scale projects. Thus we will have an important instrument for the growth of investment activity in the Russian economy.

Another instrument which should be used are government procurements. You mentioned high-speed railway transportation; the same could be used for the communications infrastructure. We have large-scale programs of a similar type, which should be realized through government procurement. I think of the reconstruction of Russia's civil aviation. We have several new models of passenger planes, but because of the splitting-up of our central airline into small, financially weak, private airlines, they cannot afford to buy new planes. The only way to solve this problem is for the state to buy these airplanes and then lease them to the private aviation companies. The same method should be used in the field of agricultural machinery. It is, partly, used now by the government in the field of some industrial equipment, for instance, for the mining industry.

EIR: What do you think of economic "development corridors" along Eurasian high-speed transportation arteries? Do you or your friends have considerations in this direction?

Glazyev: We should think about this very attentively. The geographical problem of the Russian economy is that it is concentrated in a relatively small portion of our territory. High-speed railway infrastructure is not necessarily always the best form of modern transportation in the vast territories of Russia. For instance, in the immense northern territories of Russia, economic development necessitates the use of modern aviation to connect faraway industrial centers. There are several alternatives for the transportation networks. It should be *some combination of high-speed railways, aviation, and roads/automobiles*.

EIR: Have you considered magnetic levitation transportation, which combines high-speed rails with the advantages of air transportation?

Glazyev: Again, this project should be carefully assessed. We need a set of long-term scenarios. I consider these concepts very interesting, but they need careful consideration, because their realization involves very large investments.

EIR: We talked about the Hamiltonian national banking approach. You mentioned Banks for Reconstruction and Development. They could provide the financial means for these projects. You will not get the necessary financial resources for these projects from the regular tax income of the state, nor from foreign credits.

Glazyev: Speaking about concrete large-scale projects, I

think we can raise the financial means for such specific projects in several different ways. For instance, look at the history of the Russian railways in the 19th century. The Russian government at that time established special semi-private, semi-governmental companies, and then issued shares in these companies. They attracted capital from all over the world, and the Russian government gave guarantees for the profitability of the railway shares. Another form was concession of the railways to private companies. So a lot of different instruments could be used; the main problem is our government's inaction. None of these instruments is used by the present government.

EIR: In all the approaches you mentioned, the government does play a key leading role. Why, in your view, are the economic policy principles of, for example, Friedrich List or Count Sergei Witte so little known and practiced in today's Russia? We find that the more problematic, as it seems that there is a growing perception in Russia, that the real alternative is *not* the "socialist" economic model versus the "neo-liberal free-market" economic model, but that, in reality, there are two opposing types of a market economy: one, where the state plays an important "dirigist" role, and which is vectored toward high-technology and advanced infrastructural development as the basis for flourishing private enterprises. The second is the radical "free-market," Thatcherite/IMF policy.

Glazyev: To make a long story short, I should say that *the IMF policy is very stupid*. The economic policy conducted by the Russian government, which is dictated by the IMF, is also very stupid. This policy is not concentrated on the key, real economic problems. They just sit and think: If we just limit the budget deficit to less than 5%, or if we find "non-inflationary" means to cover the budget deficit, then everything else will be fine. Then growth will start automatically. That's their story.

EIR: We suspect that the IMF knows exactly what the results of their prescriptions will be.

Glazyev: Well, maybe, but I participated to long-term negotiations with the IMF when I was in the government. I assume that this narrow-minded approach is their "philosophy."

EIR: An ideological obsession?

Glazyev: Yes. They do not want to concentrate on the key, real economic problems. Of course, if we stick to such an approach, what we will have as a result is *decline, decline, decline of the physical economy*. Because there is no positive feedback, just negative feedback. The price liberalization cuts down the income of the population. It leads to a vicious circle: From the decline of income, it leads to the decline of production, to the decline of government revenues, to the decline of government expenditures, and so forth. This could continue until we have reached a situation where Russian

industry disappears. And we see this, by the way, during this year. In 1994, we witnessed the absolute, historical record of decline of production: 25% in industry in general and 40% in the machine-building sector. I do not know of any precedent in Russia's economic history. These economic "reforms," conducted by the pseudo-liberal ideology, lead to a fiasco in economic policy.

EIR: What is your sense of the French Gaullist model of indicative economic planning, or the Japanese Ministry of International Trade and Industry approach, as opposed to the command-administrative state planning?

Glazyev: *I think that indicative planning should play a key role in the Russian economy*. In the present situation, Russian enterprises have a time horizon for planning of two or three months! If we look at the competitors in Germany or the United States, you see companies which have long-term plans for 15-20 years, including plans for expansion into the Russian market. Our Russian enterprises have no plans at all, they can speculate about the demand for their products in one or two months and about what will be the general economic situation in one or two months. The main problem for the Russian high-tech industry, is the absolute chaos in the government's procurement policy. The most uncertain player in the economy is the Russian government, because nobody knows what government procurements will be in the next year; nobody is sure when there will be how much money, and if there is any at all. That even concerns arms procurement. In 1994, the government announced arms procurements which were three times larger than what was finally paid for. When companies start to produce, they are not sure whether they will be paid for what they have produced. We do not know what the government will do next.

Indicative planning is absolutely necessary in the current situation; it is a very important economic policy instrument. The Russian government must give the private sector some idea of what the development of the economy will be for the next five to ten years, so that the enterprises can make their own plans. The private companies do not presently have facilities for long-term planning, and they have a lot of difficulties in managing their production. In the West, each large industrial firm has research facilities for long-term planning, both technical and economic. Now, with these stupid privatization schemes in Russia, companies found themselves alone, without research centers, without a marketing department, without specialists which can do economic planning. The state research institutes for technical and economic planning, which used to do this, have disappeared. Our companies know only how to produce, but they have no facilities to understand what future demand will be. It is obvious that the Russian government must intervene here to remedy this situation.

EIR: President Clinton's policy approach to Russia differs

significantly from that of Bush, Thatcher, and the IMF. Clinton understands that economic development is the indispensable basis for political stability: He supports a Mideast economic development/peace program; he resolved the North Korea crisis with an agreement to modernize that country's nuclear energy infrastructure. During his recent visit to Germany, Clinton discussed with Helmut Kohl and Jacques Delors the above-mentioned *White Paper* for pan-European infrastructure development. What would be your wishes for the American government's policy toward Russia?

Glazyev: In fact, we delivered this message in September, at the Aspen Institute conference in Colorado. There we said, that most important for Russia, at the moment, is the removal of the many trade barriers against Russian exports. Russian enterprises must be given the opportunity to establish themselves on the world market. That is very important, especially for our high-tech industries. A striking example of discrimination against Russian enterprises, which have a competitive edge over foreign partners, is the recent U.S.-Russian agreement on space launches. Russia agreed not to offer lower prices than the western competition and to restrict the number of launches for the next ten years. Such discrimination usually is nonexistent in international trade. *The key problem for us is presently the survival and growth of Russia's high-tech industry.* If we do not utilize the high-tech potential in the Russian economy, and allow it to be destroyed, then we destroy a unique economic capacity, which has not only a vast development potential in itself, but is key for promoting economic growth for the economy as a whole. The message is that the trade barriers should go down. International cooperation between American and Russian enterprises in the high-tech sector should be promoted.

Presently, Russia needs some forms of economic protection for its domestic production. For instance, if large foreign investments are going into the Russian economy, most important is the growth of demand for domestically manufactured goods coming from these foreign investments. I mentioned American oil investments in western Siberia as a negative example, because these investments do not promote any growth of the Russian economy. What they do, is simply extract oil or other raw materials. We need the stimulation of local productive activity, more economic activity in Russia's machine-building sector. Otherwise, there is more economic activity in the machine-building sector in the U.S., which supplies the machinery for foreign investments in Russia.

EIR: As a foreigner, one is shocked to find that in a perfectly normal Russian food store, a maximum of 5-10% of the food and consumer goods are of Russian origin, while at least 90% are imported. With this in mind, what would be the three or four top priorities of your economic program for Russia?

Glazyev: First, the expansion of investment activity in the economy, through development institutions and the growth of government procurements. Second, the implementation

of much more financial discipline in the country. Taxation reform to promote economic activity and ensure government revenues at the same time. Third, we should change the privatization scheme, because the present privatization scheme is designed mainly for political purposes: to physically destroy large enterprises and to privatize them as quickly as possible. What we need is the promotion of large industrial and financial institutions which would be competitive on the world market. Fourth, a certain amount of protection is necessary, not for all industries, but for certain sectors.

You mentioned food stores; I can tell you that one of the reasons for this, is the Russian government's very strange tax policy. The Value Added Tax is collected from Russian producers, but not on imported goods. For some time during 1994, imported food was excluded from the VAT; the same applied for the financing of imported equipment. My message for Americans is that they should not insist on privileges for their companies in Russia. What we really need is equal treatment, national security, and a good economic climate. More privileges for foreign companies mean more negative reactions from Russia's public opinion and political counterpressures. This approach, to force the Russian government "to do more" for international companies, is wrong.

EIR: Mr. LaRouche discussed, when he was here last April, the accelerating "mudslide" process on the international financial markets, especially the collapse of the gigantic derivatives speculation. So, when dramatic financial ruptures occur in the near term, what will happen in Russia? Is Russia prepared for such a situation?

Glazyev: No, Russia is not prepared at all. At the moment, with the *huge boom in purely speculative activity in Russia* as a result of stupid economic "reform" policies, investment into the industrial sector has become negative. In the last three years, the huge portion of capital needed for industry has flown into speculation. At the moment, we have a very strange situation: There is an acute lack of capital investment in industry, yet dozens of trillions of rubles flow into pure speculation. The speculation goes into securities—you know about the MMM scandal—and there is huge speculation in currencies, with raw materials, and with imports. The Russian market has become a huge center of pure speculative activity. Now, a large portion of foreign capital comes into Russia just for speculation. For instance, the head of the privatization committee said that each month between \$500 million and \$1 billion comes into Russia. Almost all this money, in our estimation, comes in for speculation, in the securities of the privatized Russian companies, for example. Typically, the shares of this or that oil company in the Tyumen region are traded in Moscow and then New York. That may involve profit margins of 1,000%, and the transactions may take one or two months. Nobody knows the real value of these shares! You have massive speculation, and at some time, it will inevitably collapse.