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'Brutally effective' IMF method triggers strikes in Russia, Ukraine

by Konstantin George

Both the three-day strike of a million Russian coal miners at the start of February, and the Ukrainian coal strike which began Feb. 1, were triggered by a policy dictated by the International Monetary Fund: months of non-payment of wages to miners. Withholding wages is explicitly a core component of the IMF conditionalities imposed on Russia and Ukraine under the heading of enforcing "budgetary restraints" and "combatting inflation." The State keeps the "budget ceiling" within the IMF-imposed limits by the "simple" expedient of not paying the State sector workforce.

The IMF role in these policies was confirmed by an IMF official quoted by the BBC on Feb. 4, who praised the "brutally effective" IMF method adopted by Russia of "stopping inflation by not paying wages."

President Yeltsin and the Chernomyrdin government of Russia came to realize that the method could lead to an uncontrollable social explosion, however, and granted the Russian miners' demands for the payment of all overdue back wages. This ended the strike.

The strategy of appeasing the most volatile sector of the workforce was adopted with the hope of staving off a social explosion until after June, when Presidential elections are scheduled to occur (if a national emergency does not cancel them). The gamble involved is that austerity must meanwhile be increased against other components of the workforce, such as teachers, academics, professionals, and "white collar" State-sector employees in general. The view is that these groups can strike but do not threaten the system, as the miners do. The added gouging of these sectors was already begun during the second half of 1995. For teachers and employees of institutes, for example, the long summer vacation and now extended winter vacations have become forced unpaid vacations.

The appeasement of the miners has another, historical dimension. The regime knows enough 20th-century Russian history to realize that lengthy political strikes by miners tend to ignite an unstoppable social-political crisis leading to the overthrow of the existing regime. That was the case in the 1903-05 mass strikes, which were initiated in the coal-mining sector, and again in the March 1991 pro-Yeltsin miners' strike which inaugurated the final demise of the Gorbachov Soviet regime. Given the present regime's adherence to IMF and World Bank austerity demands, large-scale strikes as such cannot be avoided. This was seen in the three-day strike for back pay by 250,000 Russian teachers in 51 regions that began Jan. 30. Unlike the miners, their demands were not met.

The regime in Moscow is able to play these "fire brigade" games because of the cash injections it is getting from the IMF. The U.S. visit of Prime Minister Viktor Chernomyrdin in late January procured American support for Russia to receive a $9 billion IMF three-year standby loan, the monies of which are already earmarked in the 1996 Russian budget for social crisis "damage control," and otherwise for the necessary import of grain to mitigate the impending 1996 food catastrophe. The finalization of this IMF agreement is seen as certain when IMF Managing Director Michel Camdessus arrives in Moscow in the week beginning Feb. 19.

No such "fire brigade" capability exists as of now for Ukraine, which is, after Russia, the largest and strategically most important independent country of the former Soviet Union. Unlike Russia, the Ukrainian coal strike is still on as of Feb. 15, with no end in sight.

Economic implosion: social explosion

On Feb. 12, the Ukrainian miners union declared they would continue the strike until all demands were met, including the payment of back wages and the continuation of State subsidies to the coal sector. While "only" 63 of the nation's 227 coal mines are officially on strike, the real dimensions of the strike are far larger. At an additional 110 mines, coal is being mined but not loaded onto rail cars for transport to power plants and coking facilities. Thus, more than 75% of production is not reaching the enterprises and customers who require it.

The coal strike is centered in the eastern Ukraine Donbass region, and has exacerbated already existing power shortages in east Ukraine, forcing plant closures. Then, on Feb. 13, Russia abruptly cut off electricity supplies to Ukraine, by shutting off the Russian electricity contribution to the joint power grid of both countries in east Ukraine. The Russian cut-off was clearly another in a long series of economic blackmail moves against Ukraine, in conjunction with the clearly enunciated neo-imperial strategy of Russian Foreign Minister Yevgeni Primakov of "re-integrating" with Russia its "Near Abroad" neighbors. The ludicrous Russian official reason given for the cut-off, was that Ukrainian electricity demand is "too high."

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On Feb. 14, the Kiev government warned that Ukraine faces an imminent "energy catastrophe." The government announced that it had already been forced to close down "thousands" of enterprises, because of the combined effect of the Russian move and the coal strike.

The IMF and World Bank shock therapy policies imposed on Ukraine cripple any ability to meet the miners' demands and end the strike. The Ukrainian government has announced that it is prepared to meet the back wages. It announced in the first week of February that it had allotted 6 trillion karbovanets ($31.9 million) for that purpose, and by the end of February will allot another 15 trillion karbovanets (about $80 million). However the government, under enormous pressure from the IMF and World Bank, has refused to extend subsidies, and indeed as Prime Minister Evhen Marchuk has said, is committed to shutting down what are called the 24 most unprofitable coal mines. On Feb. 12, he reiterated, and thus provoked the miners' declaration of an indefinite strike, that subsidies "would be catastrophic for the entire economy," and demanded a solution based on what he called "economic realities and not capriciousness."

Compounding the squeeze on Ukraine, in January, the IMF refused to grant the final $700 million tranche due for Ukraine in the ongoing $1.5 billion IMF standby loan. According to the *Financial Times* of London, the IMF may be releasing the $700 million "by early April," a date not chosen at random, as it coincides with the April 4-5 visit of Russian President Boris Yeltsin to Kiev—assuming that visit will not again be postponed. In a desperate attempt to gain early access to this fund, on Feb. 14, Roman Shpek, Ukraine's deputy prime minister for the economy, arrived in Washington for talks on the IMF credit with both the IMF and the Clinton administration. Shpek, a strong supporter of so-called free market reforms, is seeking to emulate Chernomyrdin, to "lobby" the IMF and the Clinton administration for the $700 million. He comes in the wake of an IMF team which left Kiev on Feb. 12, after reviewing Ukraine's budget and its "import payments discipline."

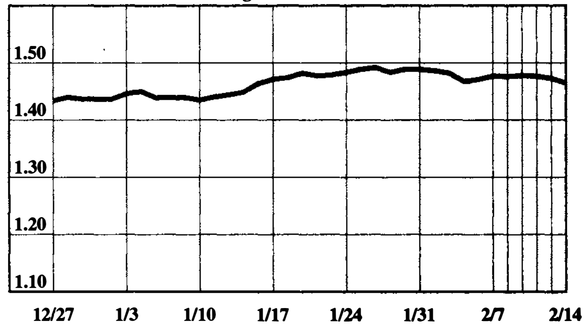
Fueling the government's desperation to risk a full showdown with the miners are the provocative actions of the IMF's twin, the World Bank. The World Bank has issued a report on the Ukrainian coal sector demanding a wholesale closure of mines—according to the *Financial Times* of Feb. 13, "at least half of them, by one estimate." It further calls for "reducing over-manning, freeing coal prices and trade, and overhauling management."

A similar World Bank report has been issued on the Russian coal sector, with the same neo-colonialist demands, namely that about half of Russia's coal mines be shut down, and that this process, as in Ukraine, must begin in earnest this year. This demand has been accepted by the Chernomyrdin government. On this basis alone, the misleading "contrast" between the Russian and Ukrainian situations may very well come to an end before long.

Currency Rates

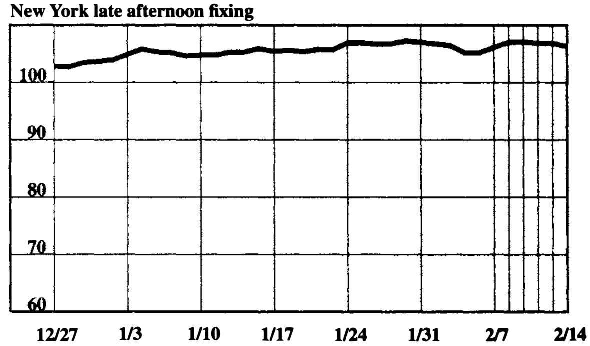
The dollar in deutschemarks

New York late afternoon fixing



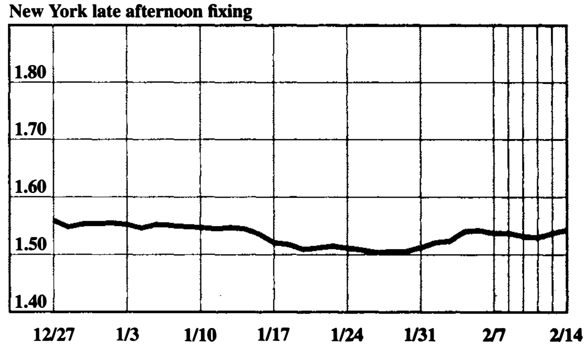
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing