

In Russia, too, the IMF slides into the dustbin of history

by Rachel Douglas

Moscow, when an International Monetary Fund delegation came to visit, used to be like the town in Gogol's *The Inspector-General*, all bowing and scraping and wheeling and dealing to curry favor with the imagined great authority from afar. Now, under the Yevgeni Primakov government, the spell has been broken.

On Jan. 14, IMF Moscow representative Martin Gilman admitted that last summer's \$22.6 billion IMF-led package for Russia was a "dead letter." New loan issues would have to be the subject of new negotiations. Russian First Deputy Prime Minister Yuri Maslyukov, meanwhile, made quite clear that any significant payments by Russia to the IMF itself, on previous loans (\$4.8 billion is due in 1999), could be made this year only if such funds were forthcoming. The reality, that the IMF is more bankrupt than Russia, asserts itself. It was already indicated by Maslyukov in October, when he told an interviewer that Russia and the IMF could understand each other now, because the IMF was in just as bad shape as Russia. On Dec. 16, Foreign Minister Igor Ivanov suggested that Russia and the United States could make common cause against "a joint global adversary—the world economic crisis."

The week of Jan. 25, as U.S. Secretary of State Madeleine Albright arrived for talks with Ivanov, and IMF official Jorge Marquez Ruarte joined a Fund delegation already in Moscow, a bombshell exploded in the major Russian media. *Kommersant-Vlast*, the leading business weekly, came out Jan. 26 with a seven-page feature on the IMF, including a signed commentary by *EIR* founder and contributing editor Lyndon LaRouche. The time has come not merely to criticize the IMF, but to tell the truth that it is defunct and to point the road to recovery, so—let LaRouche say it!

LaRouche's article was titled by *Vlast* with a line from its text: "Scrap the Foolish IMF Package!" (or, literally, "Throw the Foolish IMF Package of Measures into the Garbage Bin!"). It put the international dimensions of the financial meltdown, and its solution, squarely before the public: The January 1999 outbreak of crisis in Brazil marks the third phase of the global, systemic collapse. "There is only one short-term measure which could bring the chain-reaction factor—the capital-flight factor—under control: Immediate

introduction of capital and exchange controls, followed by steps toward establishing a new international monetary order modelled upon the pre-1958 phase of the Bretton Woods system," wrote LaRouche. "Malaysia's [Prime Minister] Mahathir was right about almost everything. Unleash capital and exchange controls now. Scrap the foolish package of measures, proposed by the IMF. If you don't, you will soon see what you get!"

In an accompanying article, *Kommersant-Vlast* reviewed the record of IMF "structural adjustment programs," with a focus on Ibero-America in the 1980s. Out of the 28 countries of Ibero-America and the Caribbean which accepted IMF loans and monitoring in 1982-88, twenty-six of them ended up unable to service their foreign debt—even though they paid hundreds of billions of dollars in interest during those years. The article concluded, on the page next to LaRouche's commentary: "It is worth thinking over seriously, whether or not it is necessary to follow the Fund's recommendations. Of course, if the IMF gives cheap credit, it should not be turned down. And it is also possible to promise to implement a program that has been agreed upon. But, beyond that, it is worth thinking over what to do."

A limit to austerity

The Russian government is working intensely on "what to do," while giving both Albright and the IMF group a cool, though diplomatically correct, reception. Ivanov emphasized, at his joint press conference with Albright on Jan. 26, that Russia will no longer "sell off its national interests" for the sake of foreign financial aid. Prime Minister Primakov, in a Jan. 18 speech to a trade union conference, warned Western lenders against advising Russia to adopt financial policies that don't include a social safety net. He blasted previous such advice, which was followed: "Not all the recommendations from our good partners were adequate to our reality."

According to State Duma (lower house of Parliament) Budget Committee head Aleksandr Zhukov, the IMF continues to demand that Russia provide a nearly 6% primary budget surplus, as against the projected 1.6% surplus. On Jan. 20, the day of the IMF delegation's arrival in Moscow,

LaRouche tells Russia: 'Scrap the IMF package!'

The following article, by Lyndon H. LaRouche, Jr., appeared in the Russian periodical Kommersant-Vlast on Jan. 26, under the headline, "Lyndon LaRouche, Economist: Scrap the Foolish IMF Package!"

Since 1991, successive Russian governments have been following the prescriptions of the IMF for the decontrol of prices, radical economic and financial liberalization, and indiscriminate opening of markets to imported products. The basic result has been to transform Russia into a raw materials producer, rather than an agro-industrial country. The collapse of the financial system ultimately led to default. You could say, that a whole era of the world financial system based on radical free trade and globalization, ended on August 17th, 1998, with that Russian default.

The world is experiencing an ongoing global economic, monetary and financial disintegration process. Its first phase was the series of financial disasters in Southeast Asia. The second phase can be dated to Aug. 17, 1998 in Russia. The dramatic collapse of the Brazilian real should be seen as marking the onset of the third phase.

To those who wish to prevent the blowout of the world financial system, I say: There is only one short-term measure which could bring the chain-reaction factor—the capital-flight factor—under control. That is immediate introduction of capital and exchange controls, followed by steps toward establishing a new international monetary order modelled upon the pre-1958 phase of the Bretton Woods system. Malaysia's Mahathir was right about almost everything. Unleash capital and exchange controls now. Scrap the foolish package of measures, proposed by the IMF. If you don't, you will soon see what you get!

One of the leading consequences of the collapse of the \$41.5 billion Brazilian "rescue package" is the utter discreditation of the IMF, which had announced the package in early November 1998. Ever since the August 1997 IMF bailout package for Thailand, such IMF-led actions for Indonesia, South Korea, Russia, Ukraine and now Brazil, have all proven to be economic, social and financial disasters for the nations concerned, while at the same time saving the lives of the private creditors, who were promptly bailed out. Since the Thai "rescue" package, the IMF has committed an unprecedented \$180 billions to such actions. In each case, the IMF demanded severe budget cuts, slashing living standards of the population and depressing the real economy.

There are five leading factors for Russia's economic reconstruction:

First. Natural monopolies, those associated with the processing of primary mineral resources and, also, large-scale infrastructure systems for mass transport, power generation and distribution.

Second. Machine-building capabilities, with a special emphasis on surviving Russian capabilities from the former Soviet military-scientific industrial complex, which is the one sector of the Russian economy that can provide the core of that economy's ability to generate high rates of growth of the labor productivity.

Third. Other industrial capabilities that can be revived, expanded, and improved, to provide most of the requirements of Russia's population.

Fourth. Agriculture, which must be developed to secure domestic self-sufficiency. The failures of agriculture were the Achilles' heel of the former Soviet Union.

Fifth. Russia's Arctic regions, which have vast natural resources. The Russian North represents the natural economic frontier of Russia's future, which could have an enormous positive impact on the economic future of Asia as a whole.

Kommersant-daily quoted Maslyukov, who said that to fulfill that demand would mean for "the already meager social sphere to be dismantled completely." The Fund has criticized the government's plan to cut the value-added tax (VAT), and insists that tax revenues go preponderantly to the federal center, Moscow, where they can be used for debt service.

Returning to Moscow on Jan. 18 from talks with IMF and U.S. Treasury officials in Washington, Maslyukov reiterated that the Russian government no longer seeks IMF loans to cover current domestic expenses. "The only goal of our talks with the IMF is agreement on refinancing our debt to the IMF itself; we do not need other money from them," he said. At a press conference on Jan. 20, Maslyukov elaborated on the

areas of disagreement between the Russian government and the IMF: "They say that the tax burden should be increased and we say, no, the tax burden should be eased, because without it it is impossible to bring life to the real sector in the economy." Concerning the intended reduction of the VAT from 20 to 15%, Maslyukov said, "Any person engaged in production will tell you . . . [that the] value-added tax is the heaviest of shackles on our production, and everybody will tell you that a cut by 5% means greater circulating capital and the possibility to develop the enterprises. And this is what we need urgently."

Answering questions, Maslyukov again raised the point that some austerity demands cross the line of what is tolerable,

from the standpoint of social stability. Asked what could be new sources of revenue, if the IMF did not disburse loans, Maslyukov said, "There can be all sorts of additional sources. For instance, yet another price increase; bigger sales of government property at auctions, as compared with existing plans; instance, offering larger areas for concessions than planned. Also, cutting spending on social aims, on the payment of wages and pensions. This is totally unacceptable for us."

Maslyukov kept the IMF delegation waiting for two days in Moscow, citing a chronic illness, and finally met Ruarte on Jan. 28. At that meeting, according to Interfax, Maslyukov presented statistics showing 3.1% average monthly growth of real production in the fourth quarter of 1998, "the highest rate in all the years of reform," and vowed that the government will pursue its drive to raise the competitiveness of domestic producers, as the Russian market is "cleansed" of imports. As for the IMF, Maslyukov's spokesman said only that "one can see progress in moving toward achieving mutually satisfactory decisions."

Vice-Premier Maslyukov said at the Jan. 21 press conference, that there was disagreement with the IMF over the Russian government's allocation of funds to, and revenue expectations from, the regions of Russia. On Jan. 27, Federation Council Speaker Yegor Stroyev warned that the Russian upper house of Parliament (the Federation Council is comprised of the regional governors) might block the 1999 draft budget, unless amendments were added "to safeguard the regions' interests." Interfax reported that Stroyev had sent Duma speaker Gennadi Seleznyov a letter on this matter. The current government budget draft provides for the regions to receive 50.5% of overall tax revenues, and the federal center 49.5%. Regional leaders have voiced concern that they will lose from the reduction of the value-added tax (the easiest tax to collect). The IMF demands that the federal government get a larger share of tax revenues.

On Jan. 26, Prime Minister Primakov spoke to a conference on federal relations, presenting a seven-point policy to improve relations between Moscow and the regions of Russia. At stake is the territorial and political integrity of the Russian Federation. Primakov's point six dealt with the question of "financial flows," where "the currently existing criteria used to determine the size of transfers are untenable," but also "the spending part of regional budgets" needs reform. The main task, said Primakov, is "to provide the population with decent living standards, to create throughout the territory of the country such budget and financial conditions in which citizens would be guaranteed a social minimum regardless of the location where they are living."

The seriousness of the simmering social crisis came to the fore on Jan. 27, with the start of a three-day work action by nearly half a million teachers and other education workers, protesting wage arrears that stretch back as far as a year and a half.

Attacks from the inside

In remarks reported by Interfax on Jan. 26, Maslyukov charged that members of Russia's former radical liberal governments were agitating against the release of any funds to Russia. Corroborating the evaluation of strategic analysts in Europe, that the London-centered core of financial swindlers would like to topple Primakov as soon as possible, Vice-Premier Maslyukov cited the activity of the Russian cronies of such international-scale thieves. Maslyukov said, "Some members of the previous government are travelling through Western countries, advising them against giving money to this Cabinet. They act like pigs."

On Jan. 26, *Nezavisimaya Gazeta*, co-owned by financial magnate Boris Berezovsky, escalated its campaign for the ouster of Maslyukov, or even Primakov. Its front-page article claimed that a Presidential decree on firing Maslyukov as First Deputy Prime Minister "has already been prepared." The paper cited anonymous sources, saying that the removal of Maslyukov would be needed in order to improve relations with Western creditors. Already that same day, Kremlin spokesman Dmitri Yakushkin called these reports "nonsense."

At the same time, several Moscow papers jumped on Prime Minister Primakov's proposal for a political truce until the year 2000—under which the State Duma would abandon impeachment efforts against President Boris Yeltsin, the President would refrain from dissolving the Duma, and former Russian Presidents would receive lifetime juridical immunity—to claim that Primakov had "broken out" in a fever of political ambition to run for President. *Segodnya* wrote that Primakov "has taken over the helm of state power" and "is acting independently of the will of Boris Yeltsin." This kind of language is designed to antagonize the President against Primakov. Deputy Chief of the Presidential Administration Oleg Sysuyev, however, confirmed to NTV that Primakov drafted the proposal at Yeltsin's request.

Kommersant-daily of Jan. 27 carried an unattributed report, that Primakov's proposal of the "concord package" followed his getting a whiff, during a visit from a group of Russian financial "oligarchs," of their intentions to try to smash his government. Primakov was reportedly told: "We still have a lot of power, and you have to make a choice. We are not satisfied by several persons in the government. If you don't listen to us, the whole government may not survive this summer."

Another *Kommersant* author, Konstantin Levin, quoted Maslyukov's press secretary on attempts by Berezovsky, Vladimir Gusinsky, and other business figures to exploit Maslyukov's two-day absence from illness, to push their clan interests; Rosbank, the recent alliance of Most (Gusinsky), Menatep (M. Khodorkovsky), and Oneksimbank (V. Potanin), obtained the privilege of handling the accounts of the customs service and the fund for credits to agro-industry, the approval being signed by a different deputy premier.