The Russian budget: smoke and mirrors

by Rachel Douglas

The uncertainty of leadership, with President Boris Yeltsin ill and power intrigues afoot among his deputies (Prime Minister Viktor Chernomyrdin, Chief of Staff Anatoli Chubais, and Security Council Secretary Aleksandr Lebed), has not been able to obscure the growing economic crisis in Russia. The Chernomyrdin government's 1997 draft budget was torn to shreds in public in early September, while economic emergencies arose in various spots.

Mikhail Kislyuk, governor of Kemerovo Province in south central Siberia, suspended payments to the federal budget on Sept. 9, declaring an economic emergency in the region, which includes the Kuzbass coal basin. According to ITAR-TASS, Kislyuk cited the non-payment of debts by industrial firms, and arrears on wages, pensions, and other social benefits. Almost 90% of Kemerovo's enterprises have resorted to barter deals, while monetary transactions conducted outside the province yield no revenue for the local budget. In late August, *Sovetskaya Rossiya* had reported a one-day warning strike in Kemerovo by coal miners, physicians, teachers, and other public sector employees, who demanded payment of overdue salaries totaling 530 billion rubles (about $100 million).

The next wage protest, this time in Moscow, involved several hundred Ministry of Defense employees, who picketed government headquarters on Sept. 19. While they demanded 6.1 trillion rubles ($1.2 billion) in back wages for civilian employees, other military protesters held strikes and rallies in the Far East and at Northern Fleet facilities in Murmansk. Total government debt to the military is estimated by the defense daily *Krasnaya Zvezda* at about 30 trillion rubles.

Over the weekend of Sept. 21-22, the Russian government held urgent discussions on "the shortage of food and fuel" in the far north, an event acknowledged by the *Financial Times* of London as "a sign of the government's fear that the often unpaid residents of the regions, where severe Arctic winter is already closing in, might join the striking power workers of the Far East, in a wave of protests that could jeopardize the country's newly won financial stability [!]." The *Financial Times* even acknowledged the link between the crisis in the north and the International Monetary Fund's pressures on Russia; "officials said there was no money in this year's tough budget" to fund winter energy and food purchases for the north, while the IMF has praised this "tough budget," it reported.

A pre-busted budget

On Sept. 13, the daily *Izvestia* reported at length on Lebed's Aug. 29 letter to President Yeltsin on the draft budget's being a threat to national security. On Sept. 11, *Nezavisimaya Gazeta* published the critique of the budget by Sergei Glazyev, former chairman of the State Duma's Committee on Economic Policy and now Lebed's economics deputy at the Security Council.

The chairman of the Duma's Committee for the Budget, Taxes, Banking, and Finance, Mikhail Zadornov, also questioned the competence of the budget draft. At a Sept. 10 press conference, Zadornov (a member of G. Yavlinsky's Yabloko party) identified "three main problems": revenue, government bonds (short-term obligations equal to the equivalent of $28 billion were issued in January-May 1996, at triple-digit interest rates), and "the structure of spending." In other words, the whole budget! The government's projected revenues were significantly higher than what could be expected in reality, Zadornov said, and it was unacceptable that only two areas of spending were slated to grow: defense, and debt service.

Glazyev, in *Nezavisimaya Gazeta,* said that Russia was about to fall below South Korea in absolute volume of output, and into the ranks of poor Asian and African countries in output per capita. Under present policy, he wrote, "The reality is that in the past five years, we have plunged from the level of a superpower, down to somewhere in the 'third league,' landing, to our own surprise, in a humiliating state of colonial dependence. This dependence . . . is manifested most of all, perhaps, in a helpless economic policy . . . conducted on the basis of drafts and recommendations from visiting experts of the International Monetary Fund."

Glazyev gave many examples of how the budget draft guarantees further collapse, including in the area of investment. Without investment in the physical economy, there can be no growth; given the collapse of investment to below the critical level in Russia, he proposed that there must be at least a 15% increase in investment overall next year, and a 33% increase in investment in machine-building. The government budget provides for a 2% increase.

In addition to state interventionist proposals he has made before, Glazyev called for "creation of a special subsystem for the circulation of 'investment' funds, mediating the flow of savings and amortization deductions into the productive sector . . . a supply of 'investment monies,' defended from the danger of flowing into the speculative sphere. Finally, it will be possible to create a system of development institutions—investment banks and funds—to provide credit for long-range projects."

Without such measures, Glazyev warned, "The result will only be a loss of the independence of a great world power, created by our fathers—a disgrace for our generation."