Russia gets new government, but has little time

by Rachel Douglas

President Boris Yeltsin's appointment of Yevgeni Primakov as Premier of Russia, announced on Sept. 10, interrupted a headlong dive into political chaos. The first nominee after Yeltsin fired Prime Minister Sergei Kiriyenko on Aug. 23, former Premier Viktor Chernomyrdin, had been twice rejected by the State Duma (Parliament). A third rejection was sure to come, followed by a Constitutional crisis as Yeltsin attempted to dissolve the Duma and the Duma attempted to impeach Yeltsin. Gennadi Zyuganov, leader of the Communist Party of the Russian Federation, was talking about the duty of Armed Forces units to stand with the Parliament.

There is little breathing space, for the new Premier-designate to achieve economic and social stability, on which to build a new economic policy. The previous government's move to re-regulate Russian finances, came after the Central Bank had already spent half its gold and currency reserves—even after they were bolstered in July with a $4.8 billion International Monetary Fund credit—in futile attempts to defend the ruble. Instead of stabilizing financial flows, the exchange controls and partial debt moratorium of Aug. 17 catalyzed an even swifter crash of the ruble and near-disintegration of the Russian banking system.

By Aug. 21, most Russian banks stopped paying out dollars to depositors who had them in their accounts. Some clients were unable to withdraw even rubles, as the system seized up in a liquidity crisis. Visa International instructed ATM operators, to not honor the accounts of several Russian banks.

On Aug. 26, the ruble crashed through the upwardly revised limits of its trading band, which the Central Bank on Aug. 17 had established as between 6 and 9.5 to the U.S. dollar. Ruble-dollar trading was suspended on the Moscow Interbank Currency Exchange that day, whereupon the ruble fell 41% against the deutschemark in that one day. By the end of the first week in September, through several MICEX suspensions, the ruble was trading in the vicinity of 20 to the dollar, with some quotes—and the street rate—as high as 30:1, a nearly 80% effective devaluation in the space of one month.

Food imports collapse

While Russia's emergency suspension of categories of payment took the world financial system into a new phase, the domain of effective sovereign defaults, it also marked a qualitative shift on the Russian scene. No longer could the population at large be insulated from the minute-to-minute emergencies of the financial system. Now in the vicinity of 40 to 60% import-dependent for food, and up to 85% dependent in the big cities, Russia experienced a 90% collapse in those imports as the ruble crashed. In early September, ships with their food cargoes were turned away from the port of St. Petersburg, as the Russian importers were unable to pay or produce letters of credit that would be honored. On Aug. 18, the business paper *Kommersant-vlast* projected a return of 1918-21 Civil War conditions, under which urban dwellers would have to travel to the countryside and barter their possessions for food. Russian sources reported that there are preparations for food-rationing.

A year of drought, followed by deluges in various parts of the country, has damaged the potato crop.

During Sept. 4-9, there were waves of panic-buying of non-perishable foodstuffs. The ruble exchange rate even reversed direction, rising as people in Russia's generally liquidity-strapped economy hurried to spend even their dollars (first converting them to rubles, improving the currency's rate) on stocks of food.

On Sept. 8 in St. Petersburg, it was practically impossible by 7 p.m. to find any salt, tea, coffee, rice, semolina, or buckwheat, matches, washing powder, shampoo, soap, toilet paper; by 8 p.m., eggs, macaroni, sour cream, curds, and cottage cheese had also disappeared; an hour later, the remaining stocks of imported canned fruit, vegetables, fish, etc., had been swept from the shelves. Prices were quadruple what they had been one month earlier.

Several provincial governors, during the week of Sept. 7, declared emergency food mobilizations, banning shipments outside their areas. Moscow Mayor Yuri Luzhkov denounced the restrictions as "dangerous," at his Sept. 10 press conference. Vytautas Landsbergis, chairman of the Lithuanian Parliament, called for international humanitarian aid to adjacent Kaliningrad Province, warning that "pending famine [within] the Russian Navy should raise international concern."

Primakov says problem was 'IMF requests'

A veteran of the Soviet and Russian foreign policy and intelligence establishment, Yevgeni Maksimovich Primakov is an Arabist, who graduated from the Institute of Oriental Studies at the Academy of Sciences and long headed IMEMO, the Institute of the World Economy and International Relations. He speaks English, Arabic, and Georgian, in addition to Russian.

Since becoming Russian Foreign Minister in early 1996, Primakov has dedicated his efforts to preserving and reviving a set of foreign relationships, appropriate to Russia's status as a great power, cultivating improved relations with the major Eurasian powers. Moreover, Primakov has spoken out about the damage, inflicted on Russia by IMF-authored policies, and—contrary to news agency reports that Primakov is a *tabula rasa,* as far as economic policy goes—has called for emulating Roosevelt's "New Deal" as a road to recovery.

Foreign Minister Primakov spoke on June 25, 1998 in London, at the Royal Institute for International Affairs, about the interface between Russia's situation, and the global markets. "Why did the Asian crisis hit Russia so hard?" asked Primakov, "Because foreign investment was mostly portfolio investment in Russian government bonds. When the Asian crisis engulfed such strong countries as Japan and South Korea, many of those who had invested in Russian state bonds started to plug their own loopholes, by taking money from Russia."

Primakov said his country's priority had to be real economic growth. "We didn't pay enough attention to economic growth, because we were focussed on macroeconomic financial stability, at the request of the IMF." Now, "there is no question of returning to the past. But we can learn from the United States. During the process of recovery from the Great Depression, Roosevelt took some state measures, tax measures that benefitted the development of industry. These are areas on which we plan to focus."

On July 20, 1998, Academician Leonid Abalkin gave a press conference in Moscow, to attack the government's so-called anti-crisis program, crafted to meet IMF austerity demands. Abalkin asked why the country of Sergei Witte and Pyotr Stolypin (turn-of-the-century reformers, students of the American System of Political Economy), and of the Soviet mathematical economics school, should be following imported, disastrous economic prescriptions. If it were not for capital flight and triple-digit interest rates, said Abalkin, Russia would have no budget deficit. He said that his findings on flight capital had been confirmed by reports from "Academician Yevgeni Primakov," the Russian Foreign Minister.

Primakov on Eurasia

In a Jan. 8, 1997 interview with Itar-TASS, Primakov called the active development of relations with Asian nations, especially China, his most important achievement of 1996. "We tried to correct the 'tilt' toward the West which had emerged in the past. . . . A power like Russia with its huge interests in Asia and the Middle East can't have all its eggs in the 'Western basket.' We have tried deliberately and actively to develop a political dialogue and economic ties with the leading powers in Asia—China, India, Japan, and the ASEAN countries," said Primakov. Speaking about relations with the United States, he added, "We are no longer fixed on the idea of 'Enemy No. 1' or on the romantic idea that 'a strategic alliance' with the former enemy is almost inevitable."

"There is particularly good progress in Russia's relations with the P.R.C.," Primakov elaborated. "What is involved here is not the rebirth of an ideological alliance of the 1950s model. We and China hold the same view that our interests lie in equal and trusting partnership with a long-term strategic aim of interaction in the 21st century."

In the summer of 1997, Primakov attended the Kuala Lumpur meeting of the Association of Southeast Asian Nations, at which Malaysian Prime Minister Mahathir bin Mohamad blasted George Soros, and currency speculation in general. A senior Russian strategist told *EIR* at that time, "The crisis of the currencies in Southeast Asia made a great impression in Russia."

Amid warnings from Krasnoyarsk Gov. Aleksandr Lebed, among others, about "civil war" or "1917" conditions and the fragmentation of the country, the acting government under Chernomyrdin scrambled to implement an emergency economic plan. What Chernomyrdin unveiled, as he addressed the Federation Council (upper house of Parliament) and then the State Duma on Sept. 4 and 7, seeking confirmation of his second nomination, he called "economic dictatorship" starting Jan. 1, 1999. The scheme bore the prints of a group of George Soros protégés—acting Deputy Premier Boris Fyodorov, and former Argentine Economics Minister Domingo Cavallo, whom Fyodorov invited to Moscow. Chernomyrdin called for, first, an issue of currency to settle urgent wage and other debts, then for an imperial-style currency board, under which Russia would be prohibited from issuing credit or currency, except on the board's terms. Dr. Sergei Glazyev dubbed it a caricature of a "mobilization economy," in which the mobilization would be for the sake of the financial oligarchy, not the nation (see *Documentation*).

Primakov has the chance to jettison such advisers, but there has very little time, under deteriorating economic conditions. His task will be made easier or more difficult, depending on whether leaders of Western nations prioritize replacing the global financial system with one that promotes real growth, or continue to try to save the "free trade" regime that is destroying one after another country, the way it has devastated Russia.

Documentation

Chernomyrdin-Soros plan: surrender of sovereignty

As the debate over Russia's choice of Premier heated up in the first days of September, the Information and Analysis Directorate of the Federation Council, led by Dr. Sergei Glazyev, circulated analysis of the policies Chernomyrdin proposed. The analytical memorandum, which qualified them as an unmitigated disaster for Russia's sovereignty and its survival as an industrial nation, is translated here. It was also published in the opposition paper Sovetskaya Rossiya *on Sept. 8.*

The content of the Chernomyrdin-Fyodorov-Soros program is the following.

First stage. Devaluation of debts and savings, through hyperinflation, accompanied by a precipitous collapse of the ruble's exchange rate and a steep reduction of the real income and savings of the population. After this, the devalued money supply and ruble exchange rate would be fixed, with transition to a "currency board" system.

Second stage. It provides for:

- linkage of the money supply to the volume of Central Bank foreign currency reserves;
- total deregulation of foreign trade;
- rejection of any state regulation of the economy;
- reliance on attracting foreign investment and credits;
- a sharp reduction of state spending.

As a result of such a policy, Russia loses its sovereignty, with respect to monetary policy, and places its entire financial system, including drafting of the budget, under the control of the IMF and the "currency board."

Under such a system, the state totally swears off any [currency] emission income and all forms of financing economic growth.

In order to finance any domestic production whatsoever, it will be required first to export raw materials, in order to earn foreign currency, because an accumulation of foreign currency is the allowed basis for emitting rubles; or, to borrow abroad for the purpose of forming currency reserves. Another allowed route is to sell enterprises to foreigners, so that they will import foreign currency as the basis for emitting rubles to refinance production.

In either case, Russia's position as a global donor to the developed countries is consolidated—the position of a raw materials appendage and a "milk cow," as a colony of the transnational corporations.

The expected results of the Chernomyrdin-Fyodorov-Soros plan:

- sharp devaluation of the savings and incomes of persons, as well as companies, during the planned hyperinflation in the first stage;
- the final destruction of science-intensive and complex manufacturing industries, which will be shut out of their foreign markets;
- an additional, two- or threefold contraction of the money supply, causing a steep deterioration of the financial situation of production enterprises, their mass bankruptcy, and sale to foreigners;
- degradation of the technological structure of the economy, consolidating its orientation toward raw materials extraction, accompanied by the liquidation of Russia's scientific and technological potential;
- the rapid growth of unemployment to the 30-35% level;
- domination of the economy by foreign capital.

Conclusion. The Chernomyrdin-Fyodorov-Soros plan is the road to the total and final colonization of Russia, which is supposed to give up sovereignty in the conduct of monetary and credit policy, give up having an independent Central Bank, give up any effective state regulation whatsoever, and confirm its specialization in raw materials production, while there is an inevitable impoverishment of two-thirds of the population, 50 million of whom will fall below the survival line.

Glazyev: 'The price of incompetence'

Dr. Sergei Glazyev, former Foreign Economic Relations Minister of Russia, now head of the Information and Analysis Directorate of Russia's Federation Council, published a major article in the Aug. 28 and Sept. 1 issues of Nezavisimaya Gazeta, *under the title "The Price of Incompetence." It is excerpted here.*

Since the middle of last year, when monthly spending to service the state debt began to exceed all federal budget tax revenues by more than double, not only well-known economists, but also politicians spoke up about the threat of a financial crash. There were such discussions, for example, at the June 1997 session of the Federation Council, on questions of state regulation of the economy. At a Federation Council round table on problems of financial stabilization, held Feb. 10, 1998, recommendations were adopted on restructuring the domestic debt, the implementation of which would have made it possible to avert the bankruptcy of the state. . . . The Government and the Central Bank waved off the warnings of scientists and the proposals of the chambers of the Federal Assembly, and continued to build up the GKO-OFZ financial pyramid. . . . The net losses of the state, due to the Government and Central Bank leaders' game with the GKO-OFZ financial pyramid, comprise more than 400 billion rubles. . . .

On Aug. 17, when the self-destruction of the GKO-OFZ financial pyramid was an accomplished fact, the Government and the Central Bank "stepped on their own song's throat," during what the day before they had called absolutely impossible. . . . The sparkling display window of oligarchical capitalism, built at the cost of draining over 2 trillion rubles from the production sphere of the economy, shattered, and behind it was revealed the unpretty picture of a bankrupt economy, on which backdrop macroeconomic stabilization turned out to be just a wax dummy. . . .

Turning up bankrupt, our "money powers" opted to forget about the nation's credit rating; they cancelled the effect of the tens of billions of dollars, spent to win a good credit rating, and dashed off headlong to save the "oligarchs.". . . By their decisions, the Central Bank and the government destroyed the credit rating not only of Russia, but of every Russian bank. [The 90-day debt moratorium], short-term as it is, will not save the balance of payments. . . . After those three months, these decisions will provoke a sharp increase in foreign banks' demand for repayment of loans to Russian partners, or a substantial increase of the collateral, which can bankrupt many banks that are perfectly solvent at present. . . .

Strange as it might seem, the radical liberal marketeers who have run Russia's economic policy, at the moment of crisis, exhibited the habits of a typical Makhno [early 20th-century self-styled "communist-anarchist"]. First failing to fulfill their obligations to the population, in order to provide superprofits for financial speculators, now they are refusing to service their debts, and have forbidden others to service them. . . . Insofar as the government had based its plan to get out of the financial crisis on the attraction of new foreign loans, to refinance the existing debt obligations, the decisions now adopted mean the collapse of the stabilization policy of the government and the Central Bank. . . .

There was a second option, supported by the Federation Council, which consists in a fundamental change of economic policy, for the purpose of raising the level of investments and resuscitating production. It includes measures to mobilize non-tax budget revenues, at the expense of Central Bank profits, natural gas exports, alcohol import and circulation, tightened exchange controls, and restructuring of the GKO-OFZ pyramid, as well as a system of measures to raise investment activity, revive production, and create the necessary conditions for economic growth.

The government and the Central Bank, having failed with the first option [of more borrowing abroad], utilized some elements of the second: They restructured the GKOs, devalued the ruble, and placed limitations on capital export. These half-baked, clumsy, and belated measures, however, were greeted as the effective bankruptcy of the Russian financial system and the beginning of an uncontrolled devaluation of the ruble. They provoked panic, and led to a sharp increase of capital flight. . . .

The last chance. There remains only one acceptable decision—transition to a mobilization economic policy, by no later than October. . . . So far, the choice is being made in the direction of the mobilization option, but not to overcome the crisis; rather, for the defense of the oligarchy's interests. . . .

One year ago, there was still a possibility to avoid the debt crisis, through appropriate changes in macroeconomic policy; six months ago, to exit from the crisis with minimal losses; two months ago, to adopt just the "modest" system of anti-crisis measures, proposed by the Federation Council, which included no actions to be forced upon economic entities; today, there is no way but to shift to a mobilization policy. If, once again, there is a continued balancing between the interests of international capital and those of the domestic oligarchy, instead of the needed anti-crisis measures, the next step of deepening crisis will have to be answered by the government and Central Bank with measures from the Bolsheviks' arsenal: nationalize the banks, natural monopolies, and viable enterprises, economically "close" the country, and suppress the political opposition by force. If these measures are accompanied by the transfer of raw materials deposits to foreign capital, . . . while the state budget is directed entirely toward debt service, it is quite likely that they would be supported by the IMF. But, do we really need such colonial "socialism," employing methods of state dictate, in the interests of a ruling oligarchy and foreign capital? Was it for this, that our society gave up developed socialism in favor of the market economy?