IMF hits the rocks in Russian Republic

by Rachel Douglas and Denise Henderson

Still reeling from the collapse of real estate giant Olympia and York, top international banking officials are evidently panicked at symptoms that the International Monetary Fund's (IMF) authority as a debt-collection enforcer could evaporate in South America and eastern Europe simultaneously.

U.S. Treasury Secretary Nicholas Brady has scheduled a surprise conference for June 24-25 in Washington, D.C. with 11 Ibero-American finance ministers. According to the Argentine newspaper *Ambito Financiero,* "A [U.S.] Treasury official said that the meeting is unprecedented. He added that Washington wants to reinforce Latin America's orientation toward reform."

Syndicated columnist Hobart Rowen reported June 4 that anxiety about debtors also dominated the supersecret International Monetary Conference in Toronto, Canada, where the "world's biggest commercial bankers" conferred. Rowen cited the "debt bomb" of 1982, when Mexico cut debt payments and imposed exchange controls. That was when economist Lyndon LaRouche's "Operation Juárez" program for debt moratoria and industrial development projects was under consideration by several nations. The Toronto conferees, according to Rowen, "took a retrospective look at the past decade and wondered if it [the debt bomb] can happen again. It already has, according to many European bankers, in the form of huge losses in loans to the former Soviet Union."

At the final session of the Toronto conference, former IMF director Jacques de la Rosière warned that IMF-mandated price liberalization in the republics of the former Soviet Union was also leading nowhere but to trouble. He told the German daily *Handelsblatt* that price rises could boost the income of still intact Soviet-era "monopolies" and cause a "process of impoverishment, with its running inflation and declining real wages, [which] could easily lead to political explosions, and a market-oriented transformation could no longer be implemented."

If the IMF's credibility were broken in Ibero-America now, as began to happen in Venezuela and Peru earlier this year, it would be doomed in eastern Europe as well. Already in May, Poland's parliament scotched pension cuts and a wage freeze that the IMF had demanded.

Russia: chaos and hyperinflation

Boris Yeltsin, nearing the first anniversary of his election as President of the Russian Federation, has proven unable to deliver the changes ordered by the IMF. Russia's membership in the Fund was certified on June 1.

Far from an orderly or even disorderly "market" economy, Russia is experiencing the breakdown of its monetary system. Lacking a perspective for industrial and infrastructure growth and politically unable or unwilling to privatize the agrarian sector in such a way that its productivity and output would increase, the Russian leadership hitched its reform process to a series of price liberalizations that quickly went out of control.

Price hikes on controlled-price foodstuffs took place on Jan. 1, March 1, and June 1. Energy prices went up at the end of May. Russian Central Bank officials admit an inflation of consumer goods prices by 740% in just the first four months of the year. According to *Izvestia* of May 14, the IMF forecast of 1,000% inflation in Russia for 1992 as a whole is an underestimate.

After years of dithering about how to "soak up the ruble overhang" in the then-Soviet economy, the hyperinflation of 1992 confronts Russian economists with the opposite problem. First Deputy Prime Minister Yegor Gaidar said May 31 that "possibly the gravest and most explosive element" of the current crisis is a physical shortage of banknotes. Last year, Russia printed 89 billion rubles; by June, it had issued 142 billion rubles in 1992, and it is preparing to print 200 billion more. The June run of 1,000-ruble notes is being doubled, and by July, there will be 5,000-ruble notes.

Cash-strapped enterprises, government departments, businesses, and other institutions in Russia have accumulated *2 trillion* rubles of debt to each other, according to the *Neue Züricher Zeitung* of June 4. This includes a huge backlog of wages owed to state sector workers. The Russian parliament's budget committee reports that over 72 billion rubles in wages have not been paid. When Yeltsin flew to southern Siberia in May, his plane—in a modern version of the 1920s Weimar Republic shopper's wheelbarrow full of cash—carried 500 million rubles to pay oil workers who were threatening to strike.

Physical economic activity has slowed for other reasons related to the monetary crisis. Desperate for resources, the Russian Central Bank in May ordered Vneshekonombank (Foreign Trade Bank) to freeze hard currency accounts and then, according to *Izvestia,* to assess each client one-third of his total deposit for the privilege of reopening his account. Some German firms had to suspend their participation in modernizing and retooling Russian industries, because their customers' hard currency accounts were frozen.

Shakeups in the leadership

In Siberia, Yeltsin told oil industry officials he would not continue on the IMF agenda: "Despite the demands of the IMF for the immediate freeing of energy prices, there is no way we can do that now." He then announced the dismissal of Energy Minister Vladimir Lopukhin.

Many suspect that Gaidar, the official most identified with accommodation to the IMF, will lose his job soon. Gaidar's "glorious career . . . [is] on the wane," wrote the Moscow *Nezavisimaya Gazeta* June 4. Gaidar's "boys," as his clique is known, will go first, and "Gaidar himself will probably be the last survivor."

During May, Yeltsin stripped his inner core of advisers, starting with State Secretary Gennadi Burbulis and, tentatively, State Adviser on Legal Affairs Sergei Shakhrai. Their ouster might placate the parliament and its speaker Ruslan Khasbulatov, who has been a frequent critic of the IMF and who clashed with Yeltsin's aides during April's Sixth Congress of People's Deputies. Then central bank head Georgy Matyukhin and his first deputy, Vladimir Rasskazov, resigned after refusing demands from parliament, collective farms, and other major borrowers to cut the prime lending rate from 80% to 50%.

Yeltsin's latest appointments reveal an attempt to cope in the short term, with help from the former Soviet military-industrial complex and energy industry, where his new cabinet members, Vladimir Shumeiko and Energy Minister Viktor Chernomyrdin, used to work. The Paris daily *Le Monde* on June 2 identified this group as "the 'industrial lobby' in Russia, which supports a more step-by-step liberalization of the economy than that desired by the International Monetary Fund and Mr. Gaidar." On May 30, it added, "This lobby constituted itself . . . into a political movement, the [All-Russian] Union for Renewal, presided over by Aleksandr Vladislavlev, whose objective is to prepare an alternative ministerial team." (Vladislavlev, nonetheless, prefaced his remarks by stating his commitment to "the Gaidar general line.")

On June 4, the London *Guardian* reported Shumeiko's appointment as first deputy prime minister as the next step in such a "creeping cabinet reshuffle." Shumeiko, an engineer, used to direct the Krasnodar measuring equipment factory, served on Khasbulatov's staff, and has joined Vladislavlev's Union for Renewal.

Co-founder of Renewal is Arkadi Volsky, head of the Russian Union of Industrialists and Entrepreneurs. A figure with a long history in Russia's communist era, including as a trouble-shooter for the Gorbachov regime, Volsky is being touted in German and some Russian newspapers as the leader of a potential "transitional government" of managers, entrepreneurs, and industrialists, and as a future prime minister.

According to *Moscow News,* economists assembled by Volsky prepared a document for the new Russian cabinet, recommending "abandonment of the fundamental aspects" of the Gaidar program, including the planned elimination of energy price controls. The *Guardian* characterized the "shift of power away from the team of young economic theorists, led by Yegor Gaidar, who favored tight monetarist discipline. . . . It also appears to mean that the managers of state enterprises and the advocates of more government investment to revive Russia's production have gained ground."

IMF 'aid' not forthcoming

So far, most discussions about "investment" in Russia have been coupled to illusions about miracle-working infusions from the IMF and World Bank, including the highly publicized $24 billion so-called aid package from western nations. Even an official trying to disabuse Russians of fantasies about these funds, Deputy Finance Minister Leonid Grigoryev, perpetuated illusions. In *Izvestia* of April 30, he warned that "you can't buy anything" with the $6 billion "ruble stabilization fund" that is supposed to become available first, followed by $18 billion to support Russia's balance of trade. But calling for creation of "a national development agency, which could filter all investment projects . . . [because] we have to know how effective today's investments will be in the 21st century," Grigoryev said that then the IMF could "help us stand on our own two feet so that we might feed ourselves."

Others, however, have begun to say aloud that the IMF will provide no such help. *Izvestia* noted April 28 that while Russian experts are counting on being able to use the ruble stabilization fund by Aug. 1, IMF Director Michel Camdessus doubts that minimal conditions will have been met for the funds to be released.