Revulsion at International Monetary Fund debt policy spreads

by Rachel Douglas

The International Monetary Fund has become about as popular in Russia as it is in Brazil or Peru. Russian expectations from the IMF were captured by a recent cartoon which showed a western leader thundering at Moscow: "Do as we say, or else we'll quit promising you $24 billion!"

Asked what Russia needed from the West, Vice Prime Minister V. Shumeiko, in a late-January interview with the 12-million circulation weekly *Argumenty i Fakty,* said that only a debt moratorium would suffice, "a postponement of foreign debt payments, if only just for three to five years."

On Jan. 13, the daily *Izvestia* titled an article, "IMF's Relations with Several East European Countries Sharply Deteriorate." Commentator Nikolai Yermolovich reported that the Fund's directors had "expressed extreme concern, that the Central Bank of Russia has not provided the information on the condition of its monetary system, which each IMF member country is obliged to supply." And in Latvia, he added, "there will be very difficult talks with the experts from the Fund, to whom the authorities will attempt to prove that the IMF's recommendations, which the republic is strictly following, require serious revision."

These cases, Yermolovich wrote, show "the possible consequences of implementing reforms in eastern Europe according to recipes from the West. . . . Post-communist society is a unique phenomenon. . . . Standard policies are clearly inappropriate. This is why there is a demand for them to be revised."

Bulgaria threatens to quit

In the most extreme case, also reported in *Izvestia,* Bulgaria has threatened to quit the IMF. Stoyan Aleksandrov, the Bulgarian finance minister, "announced that his country may leave the IMF, if the latter does not revise its harsh conditions for financing." Bulgarian National Bank officials "assured [the IMF] that Bulgaria will unflaggingly fulfill its obligations," *Izvestia* wrote, but Aleksandrov warned that "Bulgaria cannot keep part of its population below the poverty line, just because the IMF demands this." *Izvestia* noted Bulgaria's "galloping inflation," "social tension," and unemployment level of 560,000 from a total population of 8.5 million. Aleksandrov said, "We proposed to the IMF less stringent economic parameters. If they refuse, we will do without them."

The IMF came in for more unwelcome publicity, with the appearance of a curious dialogue in the daily *Nezavisimaya Gazeta* (*Independent Gazette*) on Jan. 21 and 22. This was two days after World Bank representative Ardy Stoutjesdijk announced in Moscow, that the bank would lend $500 million to the Russian oil industry with strings attached, such as a requirement for domestic fuel prices to rise in order that more oil be available for export. The petroleum industry is Prime Minister Viktor Chernomyrdin's home base.

Under a front-page headline, "Reform in Russia: Real or False? IMF Analysis," *Nezavisimaya Gazeta* printed a letter to the editor from Arkadi Volsky, formerly an influential Soviet politician, and now head of both the Russian Union of Industrialists and Entrepreneurs (RUIE) and the Civic Union, a political coalition. In December, Civic Union forces were instrumental in forcing President Boris Yeltsin to drop acting Prime Minister Yegor Gaidar and install Chernomyrdin.

Asserting that IMF officials were distressed at how "IMF dictates" were being blamed for the demolition of Russian industry under Gaidar, Volsky offered what he maintained was a memorandum of talks between RUIE and IMF officials, held late last year. The document dissected the utopian character of the Gaidar reforms, which were designed in consultation with such IMF-linked monetarist advisers as Jeffrey Sachs of Harvard University.

The document said:

"Instead of basing the necessary changes on the existing human and physical potential of Russia, the reformers tried to substitute for these tangible capacities, abstract mechanisms and stimuli. Russia had and still does have an outstanding elite of scientists, directors of state enterprises, and highly skilled military men. And although the material base of the country requires modernization, the existing productive capacities and transport grids made it possible until not long ago, to maintain an adequate standard of living for the entire population.

"The reformers, however, decided not to use these capacities as bricks for the construction of a new economic system—the way Japan did during the [19th century] Meiji Revolution. . . . The reformers justify their systematic refusal to recognize the usefulness of any human or material resources inherited from the past whatsoever, by saying that all elements of the former establishment are irreconcilably opposed to the necessary changes. . . .

"It was supposed that economic reform would lead to the market via so-called shock therapy, in other words, by means of the immediate and total liberalization of prices and imports. Being deeply involved in the ideological passions of the 'Reaganite' school in the United States, this approach from the outset had to lead to the same failures, to which Reagan's policy itself led. Price liberalization in and of itself cannot increase the supply of commodities. . . .

"The current reform program is viewed as an imported model, copied from certain economists' stereotyped concept of the American economy. But it was forgotten that there's more than one road to a market system. After the Second World War, for example, the process of reconstruction in Germany and Japan proceeded gradually, while systemic changes and the restructuring of enterprises preceded monetary reform and price liberalization. . . . Russia should work out its own approach."

The document called for a moderated privatization of industry, during which existing resources would "be the point of departure for the process of modernization of productive equipment," for some sectors, "especially transport and communications," to remain under state control, and for a customs and payments union in the former Soviet Union instead of the doomed attempt to maintain a ruble zone.

But the next day, *Nezavisimaya Gazeta* printed a denial from the IMF's Moscow office, which said that the document "in no way whatsoever reflects the views of the leadership and staff of the IMF," and that it might make "an erroneous impression on the Russian public."

Sources at the RUIE told the paper that IMF director Jacques de Groot had indeed held talks with RUIE staff, and that the document came from that session.

Now what?

The Volsky-IMF affair remains less than fully explained, but almost anybody in Russia who is thinking about the economy, is looking for an alternative to the failed monetarist IMF prescriptions described in the document. There are many political complications. Would-be restorers of the Soviet Russian empire, grouped in the National Salvation Front, seek to exploit the backlash against the IMF, by screaming that every bit of change since the overthrow of the Communist Party has been one big sellout to foreign financial and political interests. They are making hay out of the tragedy, that sincere fighters for freedom encumbered themselves with the insane formulas of Sachs and the IMF.

The Chernomyrdin government appears to be floundering. In mid-January, it abruptly rescinded a New Year's freeze on some prices, with the lame explanation from Shumeiko at a Jan. 18 press conference, that the freeze resulted from the accidental release of a rough draft on price policy. While Vice Prime Minister Boris Fyodorov, the former World Bank official and self-described "Thatcherite" (after Ronald Reagan's flopped British mentor) in charge of economic reform, labors over the price policy revision, prices on the street and at the markets in Russia have entered the realm of hyperinflation with increases of 10% or more per week.

The curious document promoted by Volsky is not the only sign that people in Russia seriously want an alternative to British-style monetarist self-destruction. Other economic columnists have echoed Japanese Ministry for Trade and Industry memoranda circulated last year (*EIR*, July 24, 1992), on what Russia might learn from Japan's experience of postwar reconstruction.

Last September, the 47,000-circulation journal of the Federation of Independent Trade Unions of Russia published Prof. Taras Muranivsky's article against "shock therapy," in which the author reviewed Franklin Roosevelt's New Deal as a case of successful dirigism, of "immediate and decisive measures" (while acknowledging that the circumstances, and the content of the policy, would be different for Russia today). Muranivsky cited the "Productive Triangle" plan (building up infrastructure in the Paris-Berlin-Vienna area to spark a world economic revovery) designed by Lyndon LaRouche and circulated by the Schiller Institute, as a terrain for "state and private financing together," which would "fundamentally transform the character of our relations with the majority of European countries from one-way, dependent relations into mutually beneficial ones."

On Jan. 19, *Izvestia* reported on a pilot project in Vladimir Oblast, east of Moscow, where German state-financed technical experts led by Dr. Wolfgang Baronius intend to create a model market economy. "The German side insistently declines to recommend blind copying of western ways, and cautions against destroying what has been achieved in the past," according to *Izvestia*. Wolfgang Karte, another German official working in Vladimir, said in Berlin on Jan. 27, that he has always advocated free-market approaches, but Russia needs "a mixed approach with state sector elements and a growing number of market elements over time," and protective tariffs if it "ever wants to have a chance of rebuilding its industrial base."

In January, the Russian edition of LaRouche's book, *So, You Wish to Learn All About Economics?* began to circulate. In the introduction, LaRouche urges that nations learn the lesson that monetarism kills: "Never again must money be elevated to any higher political authority than merely a means of fostering the production and physical distribution of tangible objects of newly produced wealth."