the IMF and the G-7 insisting on rigid monetary shock in Russia:

"There exists no precedent for the transition from a command economy to a market economy. The IMF and World Bank give the impression of having the right answers. But the outlook of these institutions is thoroughly monetarist. The prime focus of the IMF is to correct temporary imbalances in a country's national balance of payments," not to manage the most complex economic national restructuring ever undertaken.

Deficit out of control

Because of the explosive social situation facing the Gaidar government by May 1992, it decided to relax enforcement of new value-added taxes and income taxes. The state deficit then also began to explode, going from R 50 billion in the first quarter, and reaching R 301 billion by July 1992. By December 1992, combining the state budget deficit with "extra-budget" credits to Gaidar's Finance Ministry, and the advance draw on expected January 1993 tax revenues, the actual total state deficit for 1992, the first full year of the IMF shock therapy, rather than the target of 3.5% as demanded by Sachs and the IMF, was instead 17% of GNP, or a staggering R 2.6 trillion. By the end of 1993, it is estimated that the state deficit will reach a total of R 16 trillion, more than 100% of the entire GDP of Russia!

Price levels have already risen by Weimar-style dimensions. In February 1992, at the start of the IMF shock therapy program, consumer price inflation was on the level of 40-50% annually. Total price inflation in 1992 was an estimated 920% under shock therapy. By August 1993, consumer price inflation exceeded 1,250% annually.

In this situation, the real economy and living standards plunged. But, of course, this is not the International Monetary Fund's concern. Real wages after inflation fell by an estimated 50% according to data compiled by the Economic Commission for Europe. The ECE estimates a level of poverty in Russia, defined as income below "living minimum," to have included "over 40% of the population" by the end of 1992. Today it is far higher.

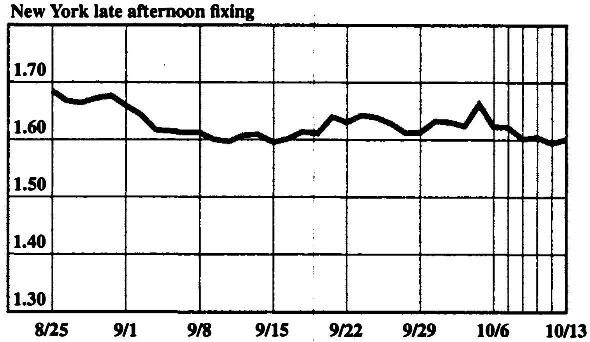
The ruble-dollar exchange rate also collapsed in the last quarter of 1992. The government's much-publicized issuing of "vouchers," or small-share ownership certificates, in state companies to the population by the end of 1992 was a thinly veiled political attempt by the Yeltsin-Gaidar government to calm popular discontent by giving Russians an illusion of ownership, and the paper vouchers could be traded, as money substitute. But with no decision on final ownership rights over property, the shares are ultimately worthless.

Shock therapy has failed in all respects in Russia to improve the domestic economic condition. But the nations of the G-7 persist in adhering to the dangerous and foolish IMF demands on Russia, because this is what certain powerful voices in the Anglo-Saxon establishment desire.

Currency Rates

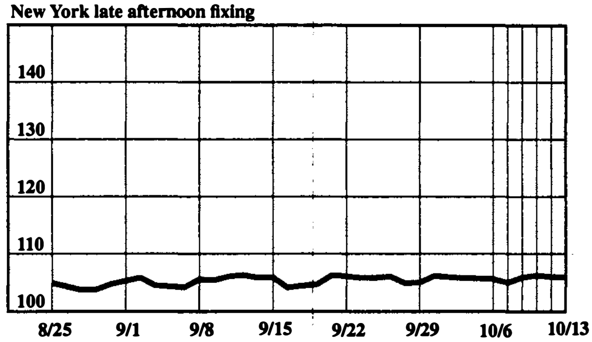
The dollar in deutschemarks

New York late afternoon fixing



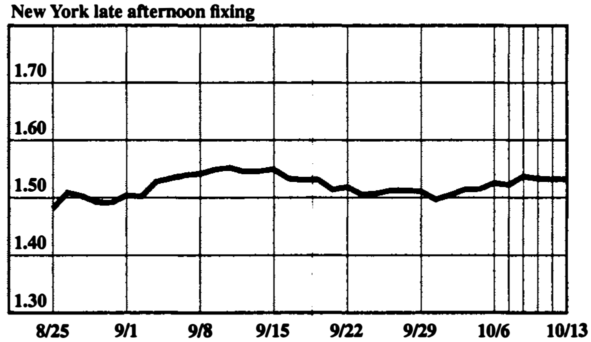
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing