

## ‘Asian crisis’ slams Russia, as labor unrest spreads

by Rachel Douglas

Russia should “reconsider its relations” with foreign financial institutions involved in speculative attacks on the ruble and on Russian treasury bills (GKO), Central Bank Chairman Sergei Dubinin said on May 20, after a week of such attacks. Dubinin, who has worked most diligently to make Russia perform to the standards of the International Monetary Fund (IMF) and its adjuncts, suddenly was questioning the rules and assumptions of the speculation-driven world financial system. “It’s hard to imagine,” he said, “how some Western investment institution can be a consultant to the government on financial operations, and at the same time be involved in collapsing the government securities market and national currency.”

Dubinin’s comments were marked with a red flag by Reuters, the British wire service, as being “reminiscent of those made by Malaysian Prime Minister Mahathir bin Mohamad, in the wake of his country’s currency problems.” Indeed, Dr. Mahathir’s watershed speech to the September 1997 IMF conference in Hong Kong, in which he blasted currency speculation as immoral and detrimental to every national economy, is no secret to Moscow policymakers, having been published by the weekly *Ekonomicheskaya Gazeta* last November, and recirculated by economist Sergei Glazyev in the bulletin of his Information and Analysis Department in the upper house of parliament.

The second shockwave from the Asian front of the global financial crisis, now hitting Russia, has the potential to inspire this other, more hopeful sort of “Asian contagion”: sovereign resistance to the dictates of international financial institutions. The latter are more and more exposed as not only morally, but financially bankrupt. In Indonesia, editorialized the Italian daily *La Repubblica* on May 18, “the IMF task force escaped secretly at dawn, taking a charter flight from the Jakarta airport to evade the rage of the Indonesians.”

The new Russian government, under Prime Minister

Sergei Kiriyenko, asserts its official commitment to follow the rules of international finance — Finance Minister Mikhail Zadornov calls it “living within our means,” even as the portion of federal spending that goes for debt service rises further from its current level of 30% — but a rapid politicization of labor protests, taking place throughout Russia in mid-May, sets the stage for sudden changes in either personnel, or policy.

### LaRouche’s forecast

The second Asian shock brought to life, with eerie precision, Lyndon LaRouche’s forecast from the beginning of this year. “Indonesia is so big,” LaRouche told “EIR Talks” on Feb. 18, “that its collapse, its disintegration, could blow up all of East and Southeast Asia, would send shock waves through Europe and into the United States, would probably trigger the collapse of the Russian financial system, would probably put enough pressure on the system to ensure the immediate collapse of Brazil. And, by April or May of this year, we could be in something beyond belief. . . . The failure to take appropriate action, against the so-called floating exchange rate system, against the so-called free trade system, that failure of nerve, to reverse course on policies which have failed, by our own government, are responsible for the present situation. The next shoe to drop is going to be a big one.”

The shoe kicked Russia the week of May 11, just as the IMF-mandated price hikes triggered escalation of the social and political crisis in Indonesia. In Moscow, on May 14, U.S. Deputy Secretary of the Treasury Lawrence Summers warned that “developments in emerging markets in general,” i.e., the collapse from their speculatively high levels, threatened Russia. By the end of that week, the RTS index of Russian stocks had fallen 13%. The stock market is relatively small (total capitalization: \$60 billion, before the latest crash), but an emergency arose when the May 13 GKO auction ended in

disaster: The issue failed to sell, and the yield on the one-year bond jumped to 36%. The Central Bank raised the Lombard rates, which govern commercial bank borrowing, from 30% up to 40%, approaching the over-40% levels of the late 1997 crisis.

Alexander Morozov, an economist at the World Bank in Moscow, warned on May 14 that if foreigners decide to pull out of GKO on a scale equal to or greater than last fall, this time the Russian Central Bank would probably not be able to avert the bankruptcy of the state. The Central Bank had \$24 billion in gold and currency reserves, going into the crisis in October 1997. At the onset of this new round, those reserves were \$16 billion, of which approximately \$4 billion was in gold. One week later, as of May 19, half a billion dollars had been spent.

On May 15, Central Bank Deputy Chairman Sergei Aleksashenko offered nervous assurances, that he saw no “serious danger either to the ruble, or to the stability of the Russian Federation.” But, he added, “we are slightly afraid of a *certain violence of opinions of international investors, vis-à-vis Russian markets.*”

On May 19, the Central Bank zoomed both the Lombard rates, and the Central Bank refinancing rate, which defines a ceiling on GKO yields, to 50%. On May 18, the RTS stock index had fallen by 11.8%, for a cumulative collapse of 22% in six days. Three-month GKO closed with yields of 40-47%, as against 29-32% on the previous trading day. Yields on a one-year bill rose to 42.73% from 39.23%. At the May 20 auction, the yields on one-year and 70-day issues were 45.7% and nearly 42% (annualized), respectively, but the issue did sell.

Russia’s federal budget assumes an average GKO yield of 25% during 1998. On May 18, the government issued a statement of its “unconditional priorities” for the year, including a reduction of GKO yields to 20%. Defending the ruble, however, was even more “unconditional.” Central Bank official Aleksandr Potyomkin told NTV on May 20 that the rates had to be raised, “to convince everyone that there is now no serious threat to the ruble exchange rate or to our currency policy.”

Halfway around the world, “Brazilian bonds were stuck like glue to the Russian bonds,” reported *Jornal do Comercio* on May 19. The Rio de Janeiro stock market fell by 6.43% and São Paulo’s by 8.96% on May 18, prompted by the news from Russia. Many Brazilian investors hold Russian and South Korean debt, enhancing what *Jornal do Comercio* called a strong “association of country risks” among the speculation-afflicted “emerging markets.”

## The pyramid

Sergei Glazyev has analyzed the Central Bank’s GKO policy as a pyramid scheme, since 1996. In his prognosis of Russian policy options for 1998 (*EIR*, March 27, 1998), he wrote, “Under conditions of continuing depression in the productive sphere and the reduction of investment, a balance is

maintained by means of ‘hot monies’ being artificially tied up in the speculative sphere, through the build-up of the state debt ‘pyramid.’ The Central Bank and the government . . . are forced to guarantee high returns on investments in the state debt ‘pyramid,’ and to divert . . . one-fourth of all federal budget spending, for these purposes.”

Glazyev recapitulated the pernicious role of the GKO interest-rate trap, and his proposal to restructure the GKO (including by the write-off of bonds held by the Central Bank itself), in an interview with John Helmer, published in the April 14 *Moscow Tribune* and, partially, in the *Journal of Commerce*. The reaction from pro-speculation economists was livid. Rory McFarquhar, one of the British-dominated Russian-European Center for Economic Policy, consultants to the Russian government, circulated a denunciation of Glazyev’s views as “bizarre,” suggesting that he was unable to understand Ministry of Finance data on the toll taken by debt service, which she claimed was of negligible causal importance.

By mid-May, nobody could miss the pyramid. On May 7, Deputy Finance Minister Vladimir Petrov tried to motivate strict austerity, and cuts in the already-adopted 1998 budget spending, with a warning that otherwise, in a matter of 20 months, the level of state budget spending on debt service will have risen to 70% of the total, from today’s 30%, and “the year 2000 will be just a nightmare.”

On May 14, the daily *Nezavisimaya Gazeta* called the Central Bank’s operations with short-term, high-yield GKO nothing but a “financial pyramid scheme,” which is about to blow like the infamous “MMM” investment scam of Sergei Mavrodi. After the May 18 crash, *Russky Telegraph*, part of the George Soros-linked Oneksimbank press empire, blamed businessman Boris Berezovsky, part-owner of *Nezavisimaya*, claiming that this article on the GKO “debt pyramid” was translated and distributed to foreign investors in a targeted fashion, in order to panic them out of the market. *Russky Telegraph* suggested that a ruble devaluation and declining share prices would benefit Berezovsky’s raw materials ventures.

Such polemical sparring notwithstanding, another Oneksimbank property, *Izvestia*, acknowledged on May 21 that the very design of the Russian financial system invites “periodic attacks by financial players, on the GKO market and against the currency.” The Finance Ministry and Central Bank have become adept crisis-managers, but with no solution to the underlying economic depression, “the country has no guarantee against new financial shocks, which may occur at any moment.”

## Wage actions turn political

As the Russian government tried to manage the financial crisis of May 15-19, it was confronted with the most serious labor unrest since the miners’ strikes of 1989, two years before the breakup of the U.S.S.R. On May 20, Gov. Aman Tuleyev declared a state of emergency in Kemerovo Province, the Kuzbass coal region in central Siberia. Miners blocked trains

at Prokopyevsk, on the detour route around the nearly week-long blockade of the Trans-Siberian Railway at Anzhero-Sudzhensk, where hundreds of coal miners have camped out on the tracks. Kemerovo was cut off on all sides.

As of May 19, four railroads—the Trans-Siberian, the Krasnoyarsk, the Northern, and the North Caucasus—were blockaded by protesting workers. Hundreds of trains are stalled, and industrial plants are running short of raw materials. In Siberia, teachers, doctors, and other professionals who have not been paid for months, joined the protests. On May 20, thousands of teachers and students marched outside government headquarters in Moscow, protesting wage arrears and the overall state of Russian education. They represented 30 regions of the country, and were among 350,000 teachers taking part in a nationwide protest.

On May 18, came reports that the coal miners' demands had shifted from immediate wage payments, to political demands. NTV said that the miners who began the Kuzbass protests were now refusing partial payments, and would "hold out for a total victory." *Nezavisimaya Gazeta*, in its May 19 coverage of the actions, asserted that they were becoming more "spontaneous," and more highly politicized. It raised the specter of a demand for President Boris Yeltsin's ouster, calling this "the scenario which is being implemented in Indonesia." Reporter Aleksandr Zhelenin wrote that payment of back wages is now only the third demand of the miners, after "dismissal of the President" and "resolution of the [coal] sector's global problems to provide for its viability."

*Nezavisimaya Gazeta* editor Vitali Tretyakov, known as an independent and honest analyst since long before Berezovsky bought his paper, wrote on May 21 that the miners' protests were the last chapter in the "history of economic reforms in Russia," i.e., the fanatical monetarism of the 1990s. The political direction of Russia, he wrote, is toward anarchy and collapse, unless a very different policy were adopted.

Deputy Prime Ministers Boris Nemtsov and Oleg Sysuyev cancelled trips abroad, in order to head for the coal regions of Rostov in southern Russia, and Kemerovo. Premier Kiriyenko said on May 21 that it was "rather difficult" to manage simultaneous social and financial crises. He expressed sympathy for the coal miners, but said there was no, and would not be any, extra budget money available to make payments, beyond \$83 million freed up by emergency 25% cuts in government administrative spending. "The first principled position," said Kiriyenko, "is that any change in Russia's obligations concerning its internal or foreign debts . . . has not, is not, and cannot be considered."

Meeting with Kiriyenko and parliamentary leaders Genadi Seleznyov and Yegor Stroyev on May 21, Yeltsin agreed to convene a national political roundtable on an anti-crisis program, in June. The "systemic political crisis, caused by an economic crisis," as Stroyev put it, may force changes on an even faster track.

## How IMF methods destroyed Indonesia

by William Engdahl

Since the Asia currency crisis erupted in Indonesia more than one year ago, the International Monetary Fund (IMF) has ensured that it would lead to the situation we see today, which already has cost the lives of hundreds, likely thousands of innocent Indonesian students and civilians, and brought the once-growing economy of the world's fourth most populous nation to a point of complete economic, financial, and, possibly, political breakdown, ultimately threatening not only China and the rest of Asia, but also the entire global monetary and financial system.

The demonstrations which erupted in early May across Indonesia were triggered by the government's announcement that it was removing state subsidies on vital foodstuffs and petroleum products. Prices for gasoline, public transportation, rice, and palm oil soared overnight, leading to protests that left more than 500 dead. The government action on subsidies was part of the revised April 13 agreement signed in Jakarta by IMF Managing Director Michel Camdessus and then-President Suharto.

### The IMF creates panic

Last November, the IMF ordered the Indonesian government to close 16 banks that the IMF said were insolvent, including one owned by a son of Suharto, in order, the IMF claimed, "to restore confidence" in the Indonesian banking system. The results were predictably the opposite. A full-scale national banking panic erupted, with citizens demanding cash from their banks.

A confidential, internal IMF memorandum to Camdessus on Jan. 13, which was leaked to the press, admitted, "These closures, however, far from improving public confidence in the banking system, have instead set off a renewed 'flight to safety.'" Citizens pulled \$2 billion worth of funds out in a matter of hours. By the end of November, the IMF move had created a crisis in which two-thirds of all Indonesian banks had had "runs on their deposits," according to the IMF memo. The situation became so critical that the Indonesian Central Bank was forced to pump an enormous sum of new money, a sum equivalent to about 5% of GDP in two months, into the banking system to prevent complete collapse. That flood of new money in turn weakened the