

The Russian fight for 'national economy'

by Rachel Douglas

If the weekly parade of press conferences on economic and financial crisis matters in Moscow were a competition in the grotesque, one of the prizes would surely go to Vladimir Mau of the Working Center for Economic Reforms, who appeared at Moscow's National Press Institute on July 2, with his associates from the Russian-European Center for Economic Policy. Mau was one of the original Russian cronies of Lord Harris of High Cross, the free trade fanatic from the Mont Pelerin Society's Institute for Economic Affairs, in London, who seized upon post-Soviet Russia as a laboratory in which to test Hayekian theory and practice. Mau worked with the first "reform" Premier, Yegor Gaidar, at the Institute for the Economy in Transition (IEA), and has boasted, "My institute contributed the most to the government, when it was formed in November 1991, because a good part of the government was from the institute."

The Gaidar government got the ball rolling, downhill. "Shock" deregulation of prices produced the year of 2,600% inflation, 1992, followed by one round after another of monetarist prescriptions from the International Monetary Fund (IMF) for how to "control inflation" by privatizing, looting, and generally wrecking the Russian real economy. Meanwhile, Russia's newborn capital markets were hitched to the post-1987 phase of globalized world finance, the domain of the greatest binge of currency speculation, derivatives trading, and unsupported inflation of financial aggregates in history.

Yet, on July 2, 1998, there was Mau, holding forth on the likelihood that if Russia fails to receive new IMF credits, and "worse comes to worst, we will repeat the fate of Albania and Indonesia." He prognosticated a banking collapse, a political disaster when the population's savings are wiped out for the second time in a decade, and he blamed the whole on the "gradualism" of the past six years—as if a more sudden, radical, and untempered liberalization would have avoided the crisis. Now, Mau proposed, the absence of oil revenues will force Russia to accept more radical austerity.

Another of the IEA's stable of young Russian economists, former Deputy Premier and administrator of privatization Anatoli Chubais, was reinstated in the government last month, as Russia's special envoy to the IMF and World Bank.

But, theirs is not the only school of thought in town.

In the institutes of the Russian Academy of Sciences, and in think-tanks attached to the Executive and Legislative branches of government, a debate is under way, over how to save the economy of Russia from destruction as the country's financial pyramid (along with the rest of the global financial bubble) collapses. Readers of *EIR* are familiar with some of the terms of the discussion, from the writings of Dr. Sergei Glazyev, Academician Dmitri Lvov, and Lyndon LaRouche's published discussions with members of the Academy of Sciences. These are members of the Russian intelligentsia, looking for a national salvation policy in the area where the scientist and economist Dmitri Mendeleev, and his younger colleague, railroad-builder Count Sergei Witte, found it after the ravages of the Crimean War and subsequent disorders during the last century: in the heritage of the school of "national economy," rooted in the American System of political economy of Alexander Hamilton, Mathew and Henry Carey, and Friedrich List.

During May and June, organizing around contemporary versions of the ideas of "national economy" came into greater prominence in Russia.

The Petersburg Economic Forum

Yegor Stroyev, the Governor of Oryol Province, demands that Russia have an effective "industrial policy," not merely financial crisis-management. Stroyev is the leader of the Federation Council, the upper house of Parliament, whose members are the elected executives of the regions and major cities of the Russian Federation. His economic advisory group is the Federation Council's Center for Information and Analysis, headed by Sergei Glazyev.

On June 17-19, the second annual Petersburg Economic Forum was held under the aegis of the Federation Council. Some 2,000 economists gathered at the Tauride Palace in St. Petersburg. The Forum had no foreign or government financing, but, as a report in the local paper *Nevskoye Vremya* remarked, Stroyev succeeded in bringing much of Russia's political elite. Premier Sergei Kiriyenko was there, as were Finance Minister Mikhail Zadornov, Deputy Head of the Presidential Administration Aleksandr Livshits, Commonwealth for Independent States Secretary Boris Berezovsky, and newly elected Governor of Krasnoyarsk Territory Aleksandr Lebed. Kiriyenko unveiled the draft of his "anti-crisis" program, which he would officially present the following week in Moscow.



Sergei Glazyev

Speaking to the Forum, Glazyev attacked the government's economic policy as a course of "financial degeneration," and the IMF as its effective author. So did Leonid Abalkin, director of the Academy's Institute of Economics, who called for a total shift of the country's economic course, and vigorous measures against capital flight, which, he documented, has beggared the nation. Like the Thai scientists and nationalists who would shortly meet on building the Kra Canal, to secure Thailand's economic future (see article, p. 12), St. Petersburg Gov. Vladimir Yakovlev told the Forum that infrastructure megaprojects should be part of the solution for Russia. "The Trans-Siberian route should terminate in St. Petersburg," he said.



Dmitri Lvov

The other major event this spring that reviewed the physical potential of the Russian economy, was a May 27-29 conference called "An Assessment of Russia's National Wealth," organized by Academician Dmitri Lvov in Moscow. Lvov, the academic secretary of the Academy's economics division, presided over an inventory of what Russia has lost, and what it has left, after seven years of "reform." The resulting estimate, according to an RIA Novosti report, was that the country has lost the equivalent of \$1.2 trillion of its "national wealth," or triple the losses in industry and the economy during World War II. In these seven years, more than 70,000 factories, including 5,000 large facilities, shut down. Russia has stopped farming 60% of its arable land, and the population has shrunk by 3.8 million. In a May 21 interview with *Finansovyye Izvestiya*, on the eve of his conference, Lvov argued that an accurate physical economic estimate of Russia's potential is an essential problem for the nation to solve, since it shows that Russia should be a rich nation, rather than slipping into the Third World.



Leonid Abalkin

Stroyev addresses the government

Yegor Stroyev brought some of these themes onto the national stage again on June 23, in his speech to the expanded

government session where Kiriyenko presented his new austerity plan. Stroyev recalled his skepticism, due to "the discrepancy between the tone and the real situation," in early 1998, when the previous government proclaimed that Russia was about to transit to "sustained economic growth."

"Unfortunately," said Stroyev, "neither the critical and constructive proposals made by the speakers nor the series of concrete decisions passed by the Federation Council on the role of the state in the emergence of the market economy, industrial policy, the improvement of the credit and financial system, on monopolies and excise taxes, were heeded or adopted at the time we put forward our program. As a result, in the first five months of this year the budget has received 7 billion rubles less in revenue, and spent 33 billion rubles more than last year to service the government debt. For the first time, we have a negative balance of payments. Arrears on wages and allowances run into many months, an intolerable situation.

"We sought to establish an open economy, but it turned out to be an economy opened wide up, and unprotected, to external crises and criminal forces within the country, which have come to dictate the rules of the game and the rules of operating in the market."

He attacked the sale of Russian manufactures abroad as scrap metal, at dumping prices, "at a time when all the factories have stopped." When duty-free import of sugar was allowed, he charged, it ruined beet-growing in Russia, depriving people of jobs and the budget of revenue.

Russia must choose between debt slavery, and development, said Stroyev. The country is at a crossroads, where "one way is to slide along the trajectory that has led to the crisis: continued external borrowing, the destruction of industrial and scientific capacities, and the build-up of pyramids of short-term government bonds." Monthly spending for the "upkeep" of the bonded debt pyramid (interest, and redemptions when necessary) already exceeds monthly budget revenue.

What Russia must do, Stroyev said, using the language of Glazyev's programmatic writings, is "pursue a vigorous industrial policy, support domestic producers, create bridgeheads for entering the 21st century. Nothing will happen by itself." He presented an investment scheme, in which the regions would take initiative, as opposed to the current concentration of 80% of Russia's financial capital in Moscow. He proposed to deploy the deposits of the Sberbank, the state savings bank, for investment in the productive sector in each region.

"Even without foreign borrowing, it would suffice to invest in the real sector of the economy at least the money of Sberbank in each territory. This would make possible a dramatic reactivation of the economy. . . . Not a single region in the country has less than 1 trillion rubles on deposit in Sberbank. Put it into production, and the question will be

resolved tomorrow.

“External debts, as well, should be incurred only for the productive sector, not for the benefit of speculative capital. . . . We should lay the foundation for long-term projects based on the latest technologies, and with a high rate of return. This will be for the benefit of our children. . . . It is high time to set up a special Presidential commission to unite domestic science, to review the accumulated experience, and to encourage domestic banks to take concrete actions, and gear toward 21st century technologies.”

At a press conference one week later, Stroyev denounced the current “tight money” policy as a prescription for permanent diversion of funds from the productive sector, into the GKO pyramid. “There is another option: to make sure, despite all odds, that advanced, 21st-century technologies are financed. This would create a tax base that will stimulate the development of domestic production.” At present, he said, funds from the regions flow to Moscow, and “are used for various purposes, most often the redemption of GKO’s. Let the regions keep the money, and direct it into production. That money alone will be enough to bring about an economic recovery, if the money goes to support progressive and forward-looking programs in industry and agriculture.”

The political dimension

Scant press attention in the West notwithstanding, Yegor Stroyev is a major national political figure in Russia. An article in *Nezavisimaya Gazeta* of June 9, one of many commentaries on the prospect of yet another complete overhaul of the Russian power structure, focussed on his potential role, if Kiriyenko turns out to have been a “temporary” figure. Author Sergei Dunayev wrote that Stroyev had probably been offered the premiership in April, but didn’t want it, after Glazyev had warned him that the financial pyramid was about to blow, and he didn’t want to be in charge when that happened. As “the new government’s status and power capacities seem to have tapered, the Oryol Governor discerns additional room for maneuver, which is indicative of victory, rather than defeat, in the government crisis.”

Glazyev’s ideas came through another political channel, in May, with the circulation of a “program of escape from the economic crisis,” adopted by a new political bloc, the Social Democratic Association (SDA). The daily *Pravda* reported on June 4 that “many well-known economists, specifically, Sergei Glazyev, took part in drafting it,” in order to chart a way “to prevent the final breakdown of the economy of Russia and the impoverishment of society, and [to create], before the end of the 1990s, conditions for the country’s extrication from profound socioeconomic crisis.”

The SDA was proclaimed by its organizer, Oleg Rummyantsev, as a “third force,” based on “an alliance of social democrats and progressive patriots.” (In 1993, Rummyantsev was

chairman of the Supreme Soviet’s Constitutional Committee, when President Yeltsin abolished the Parliament, and then crushed it by force.) Looking to 1999 parliamentary elections, Rummyantsev said he would try to unite Sergei Baburin’s Russian Public Union, Dmitri Rogozin’s Congress of Russian Communities (KRO), Glazyev’s section of the Democratic Party of Russia (DPR), and other figures, such as Moscow Mayor Yuri Luzhkov.

The SDA draft program incorporates protectionist measures in foreign trade, as well as drastic steps to promote real investment, including creation of “a state financial and credit structure (an investment bank) for the efficient concentration of funds, the pursuit of a single resource policy, and supervision of the targeted use of long-term investments.” The SDA program addresses “the menacing dimensions of the payments for servicing the public debt,” with a call to “restructure the domestic debt obligations, [incurred] as a result of the thoughtless build-up of public financial pyramid schemes.” As opposed to “blind following of the prescriptions of the IMF,” whose “regular upheavals on Russia’s financial markets . . . are acquiring an increasingly menacing nature for the country’s national security,” the SDA calls for monetary and credit policy that supports “the interests of the development of our own production.”

Only a healthy economy will save the ruble

Dr. Taras Muranivsky’s articles in the Moscow press regularly draw attention to the dynamic relationship between Russia’s crisis and the world financial breakdown. His latest, excerpted here, appeared in Ekonomicheskaya Gazeta, No. 26, June 18, 1998.

If Russia follows the “rescue technology” for currency speculators, as developed by the IMF, there will be not a kopeck for the Russian economy. . . . In reality, the collapse of the world financial system was the main reason for the economic and financial tremors in virtually all countries and all continents. Russia has, so to speak, picked up the baton from Southeast Asia, with respect to a negative influence on international finances.

Therefore, the assertion of Central Bank chief [Sergei] Dubinin, that several (as yet unnamed) currency speculators acted against the Russian markets, for the purpose of gaining by an attack on the Russian ruble, sounds the most

What can't be balanced

Some Russian coverage of Kiriyenko's "anti-crisis" plan, dubbed it a return to "statist" economics. In the middle of his June 23 speech, which presented drastic budget cuts across the board, the Prime Minister expounded the need "to ensure the development of production." He made hints in this direction, in his speeches to the Duma during the confirmation process in April, where he outlined a debt-moratorium plan for Russian industrial firms, under which a portion of their old debts, from the quadruple-digit inflation in the early 1990s, will be segregated and deferred for a long time, if current payments are made. There is also some tax relief for manufacturers, relative to the raw materials-extracting companies.

Kiriyenko told a June 21 TV interviewer, that he had met with a "working group of the Federation Council," while attending the Petersburg Economic Forum, which group was also working on "concrete proposals" to get out of the crisis. He added that, in addition to formalizing his recent meetings with leading financial magnates, into "a council of representatives of government and big business," he was "conducting discussions with the Academy of Sciences, about setting up a similar council for consultations."

In his crisis plan as a whole, however, Prime Minister

Kiriyenko's hopes about industrial revival took a back seat to his insistence upon "living within our means," i.e., cutting budget spending by nearly one-third, laying off 20% of government employees, slashing everything except for debt service.

Foreign Minister Yevgeni Primakov reflected in a June 25 speech in London, at the Royal Institute for International Affairs, on 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."

plausible. Back on Sept. 20, 1997, Malaysian Prime Minister Mahathir bin Mohamad cited this reason, blaming specific currency speculators and the IMF for the devaluation of the Malaysian ringgit and the national currencies of other Asian countries. . . . Russia has now become a staging ground for these speculative games; instead of investment in production, Russia defends the interests of speculative capital, which invests huge sums in the stock market. This is why, under the guise of saving the ruble, the Central Bank decided to triple the refinancing rate. Anyone can see where this will lead. The fire may be smothered for some period of time. But, since the domestic debt will grow at a fantastic rate, it will be necessary to find means to pay it off. Then, suddenly, the speculators will attack again on the financial markets, and again the markets will have to be saved with new foreign currency injections, even larger than the last time around. . . .

Sergei Kiriyenko's government has turned out to be stuck in the slough of the ideological conceptions which guided the Chernomyrdin team. Have they really still failed to realize, "up there," what a mortal threat the ideology of monetarism represents to Russia and its very statehood? . . .

The problem is not that some government officials lack energy or executive zeal in tax collection. . . . Economic

practice is always based on certain theoretical conceptions. . . . For example, we have been convinced, that the widely advertised theory of Adam Smith, and its modern monetarist adherents, is unacceptable, not only for the purpose of saving the ruble from devaluation, but for restoring the economy of Russia. The well-known Russian economist and statesman from the turn of the 19th to the 20th century, S.Yu. Witte, pointed out the colonialist nature of A. Smith's theory, while our contemporary, the American economist Lyndon LaRouche, emphasizes that "free trade" was always "a policy, imposed by Britain on countries, which were its victims." . . .

In order to bring Russia out of its economic crisis, the recommendations of LaRouche and other economists, on the reorganization of the international financial system by governments of sovereign nations, through an organized bankruptcy process, are ever more urgent. The speculative "bubbles," with their unjustified diversion of resources and hindrances to investment in the real economy, must be given the chance to "pop in an instant," depriving them of the ability to parasitize on the body of the economy in the future. Revenues from tax collection and from domestic and foreign borrowing, should be directed to the development of production and productive infrastructure. Only then, may the ruble be saved from inevitable devaluation.