After financial crash, Russia acts on food supply and banks

by Rachel Douglas

The Russian government paper *Rossiyskaya Gazeta* of Oct. 9 carried V. Kuznechevsky's article in defense of Prime Minister Yevgeni Primakov, against a chorus of newspaper articles, complaining under headlines like "Primakov's Silence Becoming Irksome," about his lack of an announced comprehensive economic plan. The author invoked a famous quotation from one of Primakov's favorite authors, Tsar Alexander II's Foreign Minister, Prince Gorchakov, who in 1856 said in a circular to Russian embassies, "Russia is accused of being isolated and of keeping silent. . . . It is said that Russia is angry. Russia is not angry. Russia is concentrating."

"Primakov makes no secret of the fact," wrote Kuznechevsky, "that—like F.D. Roosevelt in 1933—he is planning to make greater use of state levers than did his predecessors, in order to run a crisis-ridden economy." As for media criticism of Primakov for allegedly not being an economist, the author recalled the 1933 incident when John Maynard Keynes came out of an hours-long discussion with FDR, and "said that never in his life had he met a less well-informed person about economic matters than Roosevelt"—at the very moment FDR was orchestrating the New Deal.

The depression now gripping Russia resulted from a "financial bubble economy," Russian economist Sergei Glazyev recalls in his interview in this issue of *EIR,* and the main speculators on the Russian markets were foreign financial interests. Without a shift away from the "completely wrong" approaches of the International Monetary Fund (IMF), Glazyev sees the aggravation of a financial situation in the world, "similar to that of the Russian economy," as "the forecasts which were made by Mr. LaRouche come into reality." The Primakov government is interacting with that fatally ill global financial system, but Russia cannot delay the adoption of emergency economic measures before this winter.

On Oct. 14, Primakov, along with Central Bank Chairman Viktor Gerashchenko and other members of the cabinet, went before the Federation Council (upper House of Parliament) to report on their first month in office. Primakov's run-down of the dire straits of the Russian economy, and the government's priorities, was given in the tones of a wartime mobilization.

"Not in order to complain, but so that everybody should understand what we really have at our disposal at present," the Prime Minister first enumerated the elements of "the base from which our government began" in September: 1) months-long wage arrears to public-sector employees and pensioners; 2) paralysis of the banking system, impossibility of making payments; 3) much of the real economy not functioning; 4) two IMF loan tranches not received; 5) imports that have fallen fourfold, and food imports even more steeply; 6) dramatic diminution of tax collection and customs revenues, due to 3) and 5); 7) collapse of GDP by 16%, and real incomes by 11%; and 8) a devaluation of the ruble comparable to that of 1992.

Food security

As of mid-October, the acting head of the Labor and Society Policy Committee of the Russian State Duma (lower House of Parliament), Vitali Linnik, reported that 40% of the Russian population now lives below the official poverty line. According to Interfax, Linnik also said that the minimum wage now equals $5.50 per month, poverty has spread quickly since the August currency crisis, and unemployment is 15 million—more than one-tenth of the Russian population.

In Russia's far northern settled regions, where over 12 million people live, a member of the Duma's Northern Affairs Commission calls the situation "extremely dangerous." With fuel deliveries shy of 70% of what is required, and food shipments at less than half, "many cities with big populations are on the brink of mass tragedy," said Vladimir Budkayev, who was quoted in the press on Oct. 12.

Under these circumstances, said Primakov, the government has concentrated on areas for emergency action before winter sets in.

"The government has built up an emergency [food] reserve for special consumers and for individual regions," said Primakov. "But I must be frank: Our possibilities are limited. We are creating the government's emergency reserve for a period of two weeks and it only covers one-third of the population. We cannot go beyond these limits, because even now it costs $600 million." He listed seven key imported food and pharmaceutical products, on which customs duties are already being cut. Also for the sake of the food supply, there has been a 50% reduction of rail freight tariffs, cancellation of a 10% value-added tax (VAT) increase on food and drugs, and agreement with Ukraine and Belarus on payment of their natural gas bills in food supplies.

Twenty-five billion rubles of farm and food-processing industry debt to the state has been deferred until the year 2005.

Primakov went on to discuss the mobilization of fuel and energy resources for the winter, including debt restructuring for various public institutions. Some public-sector wage and pension arrears have been paid, but the 80% of wage arrears that are in the private sector, he called "the main time-bomb that we have in our country."

"Everything possible must be done," said Primakov, "for the economy to start to work." The government's top priorities, to this end, are 1) restructuring the banking system; 2) clearing "mutual payments on all levels, so as to push through those clots that have formed in the blood vessels of our economy"; 3) changes in the tax system. Central Bank Chairman Viktor Gerashchenko reported to the Federation Council that the banking reorganization will entail effective Central Bank takeover of several large, bankrupt but major—"system-forming"—banks.

With the demise of major banks, some of which never functioned as lenders in a normal sense, but only as cut-outs for speculative investment in a state bond market offering triple-digit annual returns, the ability of the Central Bank to function as a national bank becomes critical for Russia. Glazyev emphasizes this point, saying that "we have no opportunity now to provide the real sector with credit and to maintain the payments system in the economy, other than to use our Central Bank to do this."

There are also unconfirmed reports, that the Russian government is preparing to invite greater foreign bank ownership of shares in Russian banks, in coordination with the government bonded-debt restructuring.

Primakov announced major changes in privatization policy. The planned sale of the Rosneft oil company and the next 25% share of Svyazinvest, the national telecommunications company, have been cancelled. President Boris Yeltsin has signed a reversal of the bankruptcy-buyout of Purneftegaz, a Rosneft subsidiary that was subjected to bankruptcy and then sold for $10 million, though Primakov put its value at $600 million. This and other cases of theft through privatization will be turned over to prosecutors. Primakov said that he wanted future privatizations to serve the purpose of promoting real investment, not asset-strippng for fiscal, revenue-raising needs.

Regarding de-dollarization of the economy, Primakov rejected both the Argentina "currency board" model, and the total ban of dollars, proposed by Sverdlovsk Province Gov. Eduard Rossel and other Russian officials. He said that the government is exploring ways to attract the billions of dollars, privately held inside Russia, "into the real economy."

Russia's deliberations on financial policy are complicated not only by the political uncertainties of the Presidential power system, as President Yeltsin has become visibly more ill, but by those of international finance. On Oct. 12, Deputy Finance Minister Oleg Vyugin said that the IMF has postponed its autumn delegation to Russia yet again, waiting until the government announces its short-term economic plans. Finance Minister Mikhail Zadornov, meanwhile, has had to draft two fourth-quarter budgets for the Russian state: one assuming the disbursement of pledged IMF loans, the other assuming none.

First Deputy Premier Gustov told the daily *Kommersant* on Oct. 8 that decisions on monetary policy, including the issue of new credits and currency to finance the state budget deficit, would be decided after the IMF indicates what it will do. Central Bank First Deputy Chairman Andrei Kozlov, also interviewed in *Kommersant,* said that the bank was readying monetary policy guidelines, for release by Nov. 1. He said that the size of the money supply was being calculated, but "whether or not we get the next [IMF] loan will affect the budget, as well as the policy of the Central Bank."

Some contingency plans are under development for Russian finances. Gustov told *Kommersant* that he was considering the option of "an additional ruble, which would not have the status of being convertible and which would circulate on the internal market," alongside the convertible ruble. He cited the experience of China's currency policy, as a precedent.

Also on Oct. 8, Sberbank, the Russian state-owned savings bank, announced that it had bought more than eight tons of gold in January-September 1998, and would buy five tons by the end of the year, selling more than 90% of these purchases to the Central Bank, to bolster reserves. On Oct. 9, *Kommersant* cited anonymous government sources for a report that the Central Bank is planning to mint gold coins from the gold reserves. The sources said that a draft government resolution earmarks 20 tons of reserves for this purpose by the end of 1998, and eventually 200 tons out of Central Bank gold reserves in excess of 500 tons. Minting the coins is a way to turn this portion of the reserves into a liquid form, without the pitfalls of selling gold abroad (driving down the price), or using it as loan collateral (which might be seized).