‘Alternative’ debated, in case Russian finance package fails

by Rachel Douglas

It took rule-by-decree in Russia, as International Monetary Fund Deputy Managing Director Stanley Fischer had proposed it would, for the IMF Executive Board to approve $11.2 billion in “financial support” to Russia, beyond previous loan commitments. This is the portion of a $22.6 billion two-year package, announced by IMF Managing Director Michel Camdessus on July 13 as an emergency measure, justified by the “systemic” nature of Russia’s financial crisis, that represents new funding from the IMF this year. The approval was announced late on July 20.

As of July 17, the Russian State Duma (lower house of parliament) recessed for the summer, without passing the entire “stabilization program,” upon which the new credit lines were contingent. Premier Sergei Kiriyenko announced that night, that the failure to pass certain tax measures and enact further budget cuts, meant that the Cabinet and the President would resort to decrees. The Duma had only approved legislation accounting for 28.2 billion rubles of additional annual revenues, whereas the assignment was to bring in 102 billion. “Regrettably, we have failed to reach a comprehensive solution on how to boost revenues,” Kiriyenko said. “We can’t stop at that, and will now have to act ourselves”—by government and Presidential decree.

Kiriyenko announced that he had readied a decree to levy a unified Value Added Tax, which the Duma had rejected. (Even under President Boris Yeltsin’s Executive branch-oriented 1993 Constitution, only the parliament is supposed to be able to change taxes.) On July 18, he enacted an immediate 3% increase in import duties, which will raise $160 million per year. Interfax quoted Kiriyenko, saying, “This is a harsh measure, which will entail a rise in prices for imported goods, but the government has been forced to take it to increase state revenues.”

Yeltsin decreed that the government must submit the 1999 budget to the Duma by Aug. 26, announced the Kremlin press service; the document is supposed to meet IMF austerity demands, for a budget deficit even lower than the European “Maastricht” terms: no greater than 2.8% of GDP. On July 19, President Yeltsin’s Deputy Chief of Staff, Aleksandr Livshits, announced that the vacationing President had vetoed two laws passed by parliament to lower taxes—a cut in the tax on profits, and a law lowering excise duties on oil sales—and had also introduced a fourfold hike in land taxes by decree.

The first tranche of IMF funding was reduced from a planned $5.6 billion, to $4.8 billion, because, as Fischer put it, “Unfortunately, parliamentary backing has not been forthcoming.” Kiriyenko and Central Bank Chairman Sergei Dubinin sent a written pledge to the IMF, carried by negotiator Anatoli Chubais, that the negotiated terms will be implemented by decree, with or without the Duma’s action. At the same time, Fischer said he welcomed the convening of “a special parliamentary session” in August, to approve more of the austerity package. The $4.8 billion is in the form of a credit line to the Central Bank of Russia, to bolster hard currency reserves in an emergency.

On July 21, the Russian government announced the results of another part of its package deal with the IMF, which increased the country’s dollar-denominated debt by $6.4 billion in one swoop. The government accepted bids of $500 million cash plus 27.5 billion rubles ($4.4 billion) of GKO short-term treasury bonds, for the issue of $6.4 billion in long-term, dollar-denominated bonded debt at 15% interest. (The discrepancy between $4.9 billion and $6.4 billion is due to the bonds’ carrying a coupon payout level, less than the 15%, with the uncollected interest being capitalized.) Deputy Finance Minister Mikhail Kasyanov said that about 60% of the conversions of GKOs to Eurobonds were done by foreigners, but that some Russian banks had also grabbed the dollar-denominated instruments.

“After what has happened in the last few weeks, this is absolute victory,” exulted Kiriyenko at his press conference on July 21.

From other government officials, a consistent cautionary phrase sounded. Livshits told a news briefing, that “the international community has met us half way for what I think will be *the last time*.” Deputy Finance Minister Mikhail Kasyanov, who coordinated the conversion of GKO debt to Eurobonds, temporarily reducing the unbearable weekly debt interest and redemption burden, said, “We did it not because it was such a good operation. We believe this is *the last market instrument* to resolve the problem of debt. Russia has no other market instruments to do this.”

Opposition

What if it doesn’t hold?

Russia’s disintegrating capital markets were supposed to be stabilized by the international financial support, and, during the week of July 13, the Moscow stock market did surge from the vicinity of 150 on the RTS share price index, to the 190s, only to crash again. From July 20 through 23, the RTS index fell 23%, to 159.

Besides the impact of falling markets abroad, Russian stock shares fell after an action that heralds political opposition to the government's tax collection pledges, from the major Russian oil companies. On July 22, six firms released an open letter to President Yeltsin, in which they accused the government of acting under pressure from international financial organizations. The companies included Yukos and Sibneft, owned by the interests of M. Khodorkovsky and Boris Berezovsky, respectively, but also the giant LUKoil. The open letter charged that the "unwise and irresponsible" recommendations of the IMF would lead to social unrest.

LUKoil Vice President Leonid Fedun, according to NTV television's report, threatened that the oil companies would slash output, if the Russian government continued to signal, by its policies, that it has no use for an oil production sector. In Fedun's scenario, mass layoffs would ensue, while the Russian market would be flooded with oil imports from Azerbaijan and Kazakstan—whose oil fields are being developed by "American" oil multis; this, in Fedun's presentation, is the motive for the "American" IMF to put the squeeze on the Russian oil firms.

The oil firms are protesting the shift of taxation on oil deals from the moment of payment, to the moment of shipment, as well as the Presidential veto of a reduction of oil excise taxes. Gazprom, whose chairman Rem Vyakhirev reached agreement on July 21 with Kiriyenko on a tax payments schedule, denied that it was party to the open letter, although the copy shown at LUKoil headquarters included a Gazprom official's signature.

Whether by political opposition at home or from the pressure of the next round of international financial panic, the IMF pact with the Russian government may well go up in the flames of a "hot autumn."

An alternative

On July 20, while the IMF Executive Board was meeting in Washington, Academician Leonid Abalkin gave a press conference in Moscow, to attack the government's so-called anti-crisis program, crafted to meet IMF austerity demands, as a conceptual, practical, and political disaster. Abalkin made extensive reference to the work of his organization, the Economics Institute of the Russian Academy of Sciences, and others, including the alternative program drafted by Dr. Sergei Glazyev (see *EIR,* July 17, pp. 6-9)—as among the available approaches, to put economic policy-making in Russia on a sane basis. Concerning the Glazyev program, Abalkin said, "it was initially planned that at the June 23 government meeting, [Federation Council leader] Yegor Stroyev would present an alternative program, different from the government program. Yegor Semyonovich [Stroyev] did not take that step, perhaps because the program had not been sufficiently polished. Another reason was his status as Federation Council head because, as I understand it, he is most concerned about a public response, about the risk of an explosion, with people pointing their fingers at him as the one who would like to provoke a split. That was why his remarks were critical, but reserved, and he did not mention that program at the government meeting."

The week of the IMF agreement, the daily *Nezavisimaya Gazeta,* of which Berezovsky is part owner, printed several scenarios for emergency reform of the Russian government, through creation of a Provisional State Council, and deployment of "a mobilization model of development" for the economy. According to sources in Moscow academic circles, the publications of *Nezavisimaya* editor Vitali Tretyakov and his staff reflect intense discussion of what economic recovery policy should be on hand, for "Day X"—when the next crisis explodes, and there is no Western institution capable of providing a bailout.

Abalkin asked why the country of (turn-of-the-century reformers, students of the American System of Political Economy) Sergei Witte and Pyotr Stolypin, and of the Soviet mathematical economics school, should be following imported, disastrous economic prescriptions. If it were not for capital flight and triple-digit interest rates, said Abalkin, Russia would have no budget deficit. He said that his findings on flight capital are confirmed by reports from "Academician Yevgeni Primakov," the Russian Foreign Minister. Recently, in London, Primakov attacked the IMF and called for Franklin Roosevelt-type economic measures.

Abalkin hinted that ideas such as his and Glazyev's have sympathy in some quarters of the Russian government, but that the "anti-crisis" program is incompatible with them, and incorporates no "industrial policy" to speak of. He attacked as nothing short of lunacy, the tax-collection drive that is going to cut off electricity and gas to near-bankrupt companies. The academician also outlined a conception of how to redefine the role of the Central Bank, as a source of relatively cheap credit for the economy, instead of an agency to lend for budget-financing, at usurious interest rates.

On July 22, President Yeltsin appointed Yuri Maslyukov as minister of industry and trade. He is a former deputy defense minister of the Soviet Union for the defense industry, the last chief of Gosplan, and, as a Communist Party member of the State Duma, is the head of its Committee on Economic Policy. In 1996, Maslyukov was CP Presidential candidate Gennadi Zyuganov's economics adviser, presenting a program co-authored by economist Tatyana Koryagina, for what they called "New Deal"-type measures to revitalize Russian industry.

Maslyukov was one of only two CP deputies in the Duma, who broke party discipline to approve Kiriyenko as premier. According to Abalkin, however, Maslyukov has recently blasted the IMF-mandated "anti-crisis program" of the Russian government, saying at the June 23 government meeting where it was presented, "If you want to overcome the crisis, you should not entrust the drafting of the program to those who got us into the crisis."