IMF puts Soviet debt first, denies reconstruction aid

by Konstantin George and William Engdahl

The outcome of the International Monetary Fund and Group of Seven finance ministers and central bank heads' meetings in Bangkok, which submitted to Anglo-American policy dictates, inaugurates a vicious offensive against the newly independent republics of the former Soviet Union. The policy is designed to destroy their national economies, and, in conjunction with the condominium partners of the Anglo-Americans—Gorbachov and the forces of the old Moscow Center—to operate against the national interests of Russia, Ukraine, and other republics to sow chaos in these strategic regions of the Eurasian heartland.

The staggering blow to the hopes of the republics only began with the IMF's flat refusal to adopt an aid program for them. The full war declaration against these nations was issued in a Bangkok statement by IMF Managing Director Michel Camdessus, who said that all Soviet debt must be paid no matter the cost to the real economy of the republics. He went beyond even that to effectively call for, as conditions for any western credits, the dismantling of their national economies, through the elimination of all state subsidies for industry and agriculture, as well as very deep cuts in the defense budget.

Cutting the defense budget on the scale envisaged by Camdessus and the IMF, by one-third to one-half, means not only what the layman would understand as strictly military cuts, but the high-technology research and development components of the Russian military establishment which form the "science driver" potential for the Russian economy.

German-U.S. clash in Bangkok

The hard line on the Soviet debt came out of the latest International Monetary Fund-World Bank annual meeting in Bangkok Oct. 13-14 after the United States staged a provocation against the Europeans in the Group of Seven (G-7) major financial powers of the advanced sector. The nominal issue was a proposal presented by U.S. Deputy Treasury Secretary David Mulford to the G-7 central bank and finance ministers. Mulford suggested that the seven leading western industrial nations—the United States, Canada, Britain, Japan, Germany, France, and Italy—offer the Soviet Union a "debt moratorium" on some $64 billion of debt owed to western banks and governments.

Not surprisingly, continental European representatives of the G-7 registered their loud protest to the "generous" American offer. Western European members of the G-7, especially Germany, France, and Italy, are by far the largest creditors to the Soviet Union. Together, those three are owed $32 billion of the total U.S.S.R. foreign debt as of August, according to data compiled by the London bank rating agency IBCA, Ltd. By contrast, U.S. banks have virtually ignored the Soviet Union in recent years. Total U.S. bank lending is a paltry $500 million. Mulford's moratorium would hit the European banks most concerned for the success of the Soviet economic transformation, and ensure the inability of those banks to lend to eastern Europe for years to come.

The first secretary of the German Finance Ministry, Horst Koehler, reacted abruptly to Mulford's plan, sharply criticizing it as "premature." Norbert Walter, chief economist for Germany's largest bank, Deutsche Bank, with the largest stake in the Soviet lending, was more blunt: "It is not at all helpful when those who know the least regarding the Soviet debt situation and who are least affected by it choose to speak the most about it," Walter told the international press in Bangkok.

Commenting on the discussion among the German delegation to the Bangkok IMF and World Bank gathering, the

Frankfurter Allgemeine Zeitung on Oct. 16 noted that it was widely believed among the Germans present that Mulford's move was deliberately calculated to put the German banks under financial pressure. "One interpretation is that the American banks, who in comparison to the Germans have no great exposure to the Soviet payment problems, see this as a chance to destroy the reputation of the German banks. At the moment, the German banks, in international comparison, stand quite strong, while the American banking system is passing through an extremely difficult period," the leading German daily noted.

A dangerous shift

The outcome of the IMF meeting has already triggered what could become a fatal shift in Russian policy, with Russia's new leaders seeking, wrongly, pragmatically, to adapt to the conditions of the siege warfare being conducted.

The first indication to this effect was a television address by Russia's President Boris Yeltsin, Oct. 16, telling the Russian population to prepare for hard times ahead. For the first time, he committed himself, at least in name, to a widespread price deregulation, i.e., allowing all retail prices to float freely, and thus rise steeply. Yeltsin, also for the first time, announced a much faster and much deeper scope of privatization of state enterprises. If the concrete aspects of this plan are in accordance with the tone of what he announced in general, then Russia will not only face a winter of shortages, but this will be compounded by high inflation and rising unemployment.

Russian leaders demand action now

Leading forces in the Russian elite, including the military, are fast losing patience with the humiliation Russia is being subjected to by the non-aid from the West, by the IMF, and by the machinations of the old Moscow Center to retain power against the republics. Should Yeltsin move in the direction of capitulating, this backlash will expand very rapidly, and the battle within Russia will be joined for a life-and-death fight.

Coordinated policy statements in the days prior to the IMF meeting, by the strongest grouping of the new Russian leadership, centered around St. Petersburg Mayor Anatoli Sobchak and Russia's Vice President, Gen. Maj. Aleksander Rutskoi, gave President Yeltsin and the Russian government an ultimatum to act now to avert a winter tragedy. With winter now but weeks away, this grouping, supported by the new Army leadership, will tolerate no further delays in adopting sweeping measures to handle Russia's staggering economic crisis.

The urgent tone for the offensive was set by Rutskoi Oct. 9, when he decried "the complete absence of power in Russia. Laws are passed, but no one observes them." Pointing to one set of extreme measures that could be taken in the context of an absence of western aid, to alleviate grievous winter

Managing director of the IMF Jean-Michel Camdessus

shortages in Russia, Rutskoi declared: "Russia cannot permit itself to remain the milk cow of other republics," meaning in this case all the Central Asian republics except Kazakhstan. If given no other choice to get itself through the winter and early spring, Russia will drastically cut its subsidies and traditional grain and other exports to these republics.

A dramatic televised appeal to Germany and the West one day later by Sobchak, during a visit in Frankfurt, echoed Rutskoi: "Too much time has been lost in dealing with the economic crisis," stressing above all the critical food supply situation over the next nine months. Sobchak presented a plan, where the West would provide credits for food purchases. The food would then be sold in Russia for rubles, with the proceeds earmarked for a "Fund for Agricultural Reform." He stipulated that the first crucial goal of this reform "must be to have by next spring at least 100,000 private initiative farms in Russia alone."

Beyond that, he repeated his call for western investment to set up a "high-techology conversion"-based "Free Economic Zone" in St. Petersburg and the surrounding region, as a first model region to begin the modernization of Russian infrastructure and industry.

The more havoc the IMF and their inside allies wreak on Russia, the stronger this grouping will become. Yeltsin himself is at a crossroads. Capitulation to the IMF will ensure his downfall. His political future will depend on how he responds to the Sobchak-Rutskoi group, who not only hold strong institutional power, but are already immensely popular. There are fair prospects for a strong Russian *nyet* against the IMF to emerge, but one hopes this will be very soon, and not after an IMF-induced "Time of Troubles."