

IMF puts squeeze on Yeltsin's Russia

by William Jones

A dogfight broke out among fellow monetarists at the 1992 meeting of the Bretton Woods Committee on June 15, the day Russian President Boris Yeltsin arrived for his summit with President Bush. The fight centered around the problems which have arisen in the International Monetary Fund (IMF) negotiations with Russia. The Russian government, under tremendous pressure from a populace just beginning to feel the full force of the announced free market austerity policies, has been forced to "go slow" on a number of issues in order to avoid total social revolt in the country. Yeltsin's appointment of leading members of the military-industrial complex to key government posts—in particular the appointment of Viktor Shumeiko as deputy prime minister—did not sit well with the IMF, nor did the slowdown in the pace of privatization of Russian state enterprises.

The fight centers around the \$24 billion "aid" package promised by the Group of Seven countries (United States, Canada, United Kingdom, France, Germany, Italy, and Japan) to assist the former Soviet Union in instituting "shock therapy." Because of the skepticism about Yeltsin's ability (and perhaps will) to implement these ruinous policies, the IMF is balking on giving Russia anything more than technical assistance. The precondition for Russia's seeing any of the promised \$12 billion, is an agreement with the IMF. But if the funds are not forthcoming—and quickly—the ability of the Yeltsin government to continue the "shock therapy" will be seriously impeded, possibly leading to an anti-Yeltsin coup.

Sachs fears monster he unleashed

Even the architect of the IMF "shock therapy" program for Russia, Harvard economist Jeffrey Sachs, one of the main speakers at the Bretton Woods meeting, was getting a bit nervous. Sachs complained that an agreement could be reached in the next two weeks but for the short-sighted attitude of the IMF, and warned that the deal was "excessive, unnecessary, and increasingly dangerous." The economic conditions in Russia were "still very precarious. . . . We are at a critical juncture where days and weeks will count," Sachs said. Sachs tried to explain away the conflict between the IMF and Russia as a "misunderstanding" which simply needed to be cleared up—but quickly—and blamed the growing

impasse on the "IMF technical staff," whose work, in Sachs's words, "had been anything but satisfactory."

IMF Managing Director Michel Camdessus, who immediately followed Sachs, disagreed. "There is no difference between the IMF staff and the IMF management," he asserted, reiterating the decision of the IMF to "limit itself to technical assistance" and "to watch the economic programs begin to work." The IMF is demanding that the promised \$6 billion ruble stabilization fund be used for building up reserves, rather than for clearing the balance of payments deficit. The IMF also wants Ukraine included in the "ruble area," despite the fact that the Ukrainians want to get out and Russia is willing to let them go. The IMF is also demanding that Russia foot a larger chunk of the Soviet debt than Russia is prepared to handle. "In view of conditions in Russia," said Camdessus, "we shouldn't dispense funds without conditionalities." Camdessus demanded a "bold and comprehensive approach" rather than "the seductive charms of a more gradualist approach. . . . We could not support a program that would be less than adequate," he said, adding that it would be a "disservice" to those countries which had already caved in to an IMF austerity program.

Sachs was not the only person concerned about a sudden turn for the worse in Russia. Zbigniew Brzezinski, former national security adviser to Jimmy Carter, who spoke on the political situation in Russia, struck a warning note, saying that there was great "pressure for further fragmentation and possible reaction" in Russia. Brzezinski also raised the question which was in the back of everyone's mind: "What happens if Yeltsin disappears from the scene?" By way of an answer, Brzezinski noted that the Army is the "most viable institution" in Russia, and that it is rapidly becoming a voice heard more often in the political life of the country, but that it is "dissatisfied and demoralized." Vice President Aleksandr Rutskoy "is developing cogent arguments for an alternative, and has even written on the role of the Army," warned Brzezinski. "The *nomenklatura* is still in place." He compared Yeltsin to Ataturk, the Turkish nationalist who in the first two decades of this century also had to build a nation-state out of the ruins of an empire.

The other stumbling block for the IMF "shock therapy" is the U.S. Congress, which must approve a \$12 billion increase in the United States IMF quota, a prerequisite for realizing any of their schemes. Sen. Richard Lugar (R-Ind.), speaking in the afternoon session, warned that the votes just weren't there to increase the quota for the moment. Perhaps the Yeltsin appeal to the U.S. Congress may gain that legislative support for passage, but the odds still seemed to be stacked against it. And whatever the vote may be, for the Yeltsin government it is rapidly becoming a question of "damned if you do, damned if you don't." Barring any new moves towards a real aid package for Russia—rather than for the bankrupt IMF—the future of the Yeltsin government looks very bleak indeed.