Russian Academicians, Glazyev blast reforms, call for growth policy

by Rachel Douglas

Russian First Deputy Premier and Finance Minister Anatoli Chubais is nervous. Responding in *Izvestia* of July 5, to the newspaper's report that he had parlayed a 1.5 billion ruble (over a quarter of a million dollars) interest-free credit, granted by Moscow's Stolichny Bank to Chubais's Center for the Protection of Private Property last year for the promotion of "civil society," into a 1,000% profit on the Russian state bond market, Chubais claimed that such no-cost credits were "absolutely normal for Russia or for any other democratic country" and suggested that *Izvestia* was taking its cues from the Communist opposition paper, *Sovetskaya Rossiya*.

While it is not yet clear, whether or not the Stolichny (now called SBS-Agro) scandal might prove fatal for Chubais, he is also under fire again for his policies, as such. In early June, Chubais made an appearance at the annual conference of the political party to which he belongs, Yegor Gaidar's Russia's Democratic Choice. Gaidar was the premier and Chubais in charge of privatization, in 1992-93, when their first round of liberalization on the Thatcherite model wreaked havoc with Russian industry, resources, and the standard of living. Chubais told the meeting that "the reform started by Gaidar now has a unique chance of being completed," but he went out of his way to attack certain Russian academics, "who haven't read a single foreign book," for criticizing his policies.

The fetishization of "foreign books" goes back a while, for Chubais and Gaidar, and applies primarily to the writings of the radical free traders, Mont Pelerin Society founder Friedrich von Hayek and Milton Friedman. Chubais and Gaidar's associate, Vladimir Mau, explained in a 1996 interview: "For Gaidar, when we set up our institute in 1990, one of the most important criteria, was that a person should be young and speak foreign languages. At the moment I did not understand, but he explained it to me and he was absolutely correct, that those who did not speak any foreign languages, could not read any relevant economic literature, because at that time, nothing existed in Russian. Everything existed in English, almost everything in French because the most part of the books had been translated. And nothing in Russian."

Lord Harris of High Cross, boss of the Mont Pelerin Society's London spin-off, the Institute for Economic Affairs, patronized Gaidar, et al., hosting them for economics seminars, even before they took power and became the toast of the International Monetary Fund and neo-liberals around the world, in the Bush-Thatcher era. Harris has told whence his enthusiasm for his Russian pupils: "I have met chaps there who know about Hayek, I didn't have to tell them. They have read Hayek and Friedman and others, and are very, very bright."

At parliamentary hearings and a scientific seminar during June, however, Chubais's methods and their results took a beating from Russian specialists, who know not only foreign languages, but something about economics. Among them were Academician Dmitri S. Lvov, deputy director of the Central Mathematical Economics Institute (CEMI) of the Academy of Sciences, and Sergei Glazyev, the CEMI graduate and associate who now heads the analytical service of the Federation Council, or "senate" of Russia.

The Academy's report

Testifying in his capacity as secretary of the economics division of the Academy of Sciences, Lvov presented the findings of studies by numerous institutes and scholars of the Academy. He spoke directly after Chubais had asserted to the Federation Council members, who are the governors of Russia's provinces and major cities, that his tax collection drive and institutional restructuring are just about to produce growth. Lvov countered: "The country is in the grip of a profound financial crisis. The real economy is not working. As a result, the real tax base is shrinking and, effectively, we are cutting our economy off from the possibility of economic growth. For this reason the government is left with no obvious ways to solve social problems."

According to a synopsis in *Sovetskaya Rossiya*—the electronic media paid scant attention to these hearings—Lvov proposed an array of maneuvers, which could activate the potential of industrial capacities that are currently idle in Russia. He documented that over two-thirds of investments, in the recent period, have gone into strictly monetary profiteering in the financial sector. This has been accompanied by an ever greater debt-service burden on the economy, while draconian taxation and tax collection measures will only stifle the chance for goods-producers to get back on their feet.

Academician Lvov took the government to task for even turning away the advice of Western experts—a group of Nobel laureates in economics, including James Tobin, who co-signed, with Lvov and other members of the Academy, a critique of the liberal reforms.

Criticism of Chubais is rare in the press, he being the government official in charge of the media, but Moscow's *Delovoy Mir* did cover a scientific conference, held in St. Petersburg in late June, that continued the Federation Council's debate over what kind of economic policy Russia needs. It was organized with the participation of Arkadi Volsky's Russian Union of Industrialists and Entrepreneurs (RUIE), and keynoted by Academician Leonid Abalkin, director of the Academy's Institute of Economics.

Data were presented there from the Academy of Management and Marketing, which showed that Russia will need investments on the order of $500 billion, to launch economic growth. According to RUIE calculations, this figure might be only $150-200 billion, but presently available sources could provide for only one-third of the need—despite the fact that $400-700 billion of Russian-originated assets are circulating on international capital markets! In 1996, *Delovoy Mir* reported from the conference, the outflow of capital from Russia was $22.3 billion, 10 times greater than direct foreign investments in the national economy.

Russian First Deputy Premier and Finance Minister Anatoli Chubais, who parlayed an interest free credit from Stolichny Bank into a 1,000% profit on the Russian state bond market.

Glazyev's 21st-century perspective

Under the subhead, "Economic Strategy and the Challenges of the 21st Century," *Delovoy Mir* reported on a speech to the St. Petersburg event by Sergei Glazyev, chief of the Information and Analysis Office of the Federation Council of the Russian Federation. In 1993, as foreign economic relations minister, Glazyev was the only member of the government to quit in protest of President Boris Yeltsin's abolishing the Constitution and crushing parliamentary opposition by force. He subsequently headed the Economic Policy Committee of the State Duma, as a member of parliament from the Democratic Party of Russia, and then worked at the Security Council during 1996.

Glazyev observed that there is no prospect for stable economic growth, within the framework of current economic policy. Despite myriad statements that "macroeconomic stabilization" has been achieved, there are no reliable indicators of economic growth.

Instead of relying on the sale of natural resources, Glazyev argued, Russia should finally understand that the principal indicator for economic growth is scientific and technological progress. Yet, science spending in the Russian Federation and other countries of the Commonwealth of Independent States (CIS) is declining rapidly. The latest forecasts, he said, are very disturbing: Until the year 2000, Russia will be in a slow-moving depression, with a slight growth of capital investments, on the order of 3 or 4% per annum.

In the first quarter of 1997, however, capital investments fell by 8%. Capital flight exceeds foreign investment in Russia almost fourfold, he said. In Glazyev's view, an investment boom is prohibited by Russia's deep ensnarement in a debt trap, wherein current debt service (interest and principal due) is *double the entire sum of tax receipts*. Moreover, under current policy, the natural monopolies have raised raw materials prices so high, that even with low inflation and a reduction in the refinancing rate to 20%, the production sphere is not in a position to accept investments.

Glazyev warned that Russia's current mode of integration into the world economy is no path to progress. It replicates the relations of African and Ibero-American countries with the international financial organizations, the deplorable results of which are a collapse of production, a brain drain, rising unemployment, and so forth.

Without a policy for development of Russia's surviving scientific potential, Glazyev concluded, the country cannot advance. This will require a differentiated policy, adjusted for each economic matter that the state must regulate.